THE FINAL REPORT

FISCAL POLICY

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COMMISSION ON MANAGEMENT AND PRODUCTIVITY

Fiscal Policy Task Force

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Fiscal Policy Task Force

Executive Summary

Background

The Commission on Management and Productivity was convened by Governor Carnahan in February 1994 to conduct a major review of state government, evaluate its strengths and weaknesses, and prescribe reform. This has been a collaborative effort between the executive branch, legislative branch, and the private sector to analyze issues and develop solutions for improving management and enhancing customer service in Missouri state government. Six task forces developed recommendations and implementation strategies on the following issue areas: fiscal policy, workforce, efficient operations, management improvement and customer service, automation, and strategic planning.

The Fiscal Policy Task Force was charged with the mission to "develop strategies to improve existing information technology and create a plan to establish an infrastructure which supports innovative management solutions." During the course of their work, the task force collected and analyzed data, researched initiatives in other states, and conducted surveys, interviews and focus groups with state employees. This report details the results of their analysis and their recommendations on fiscal policy issues.

Recommendations

1 ***Implement a centralized Risk Management Division within the Office of Administration that is professionally staffed on a functional organizational basis to effectively and efficiently manage risk management exposures.***

Risk management is decentralized under the Office of Administration, Department of Conservation, Department of Highways and Transportation and the University of Missouri System. These four risk management programs have different program, operation and financial structures and inequities exist among the structures. Centralizing risk management will eliminate redundant processes within and among departments, provide economies of scale in managing risk, enable a professional staff to be developed that can maximize skill sets, provide a common risk management strategy, and provide the lowest cost structure while improving service levels.

2 ***Create an effective debt management policy for the State of Missouri, allowing the State to maximize its financial resources and improve the effectiveness of state government.***

The State has no formal policy or criteria for the effective use of debt. The establishment of a debt policy will create several opportunities for the State to use its resources more effectively and efficiently, and more importantly, protect the State's "triple A" rating. All of the departments of State government and political subdivisions that issue debt should benefit from a debt policy. Further, the use of tax-exempt debt can be seen as a vehicle to obtain additional federal money. In some cases, state debt can be used as the State's match. The facilities of the state could be improved through the creation of a debt policy due to linking capital budgeting to debt management. By consolidating issuers and defining the type of debt issued, the State could realize cost savings through reduced interest rates. The task force assembled a draft of the Debt Policy as a starting point for discussion. The task force recommends the formation of an hoc Committee on Debt Management to review the draft and finalize it.

3 ***Amend the State Treasurer's Investment Policy to extend maturities and expand the types of securities in which the State is allowed to invest.***

The current Investment Policy utilized by the State Treasurer's Office is restrictive thereby preventing the State from maximizing its financial resources. The State is limited in the type of securities and the length of time it can invest its funds by the Missouri Constitution and Statutes. Constitutional provision and statutory law excessively restrict the state from earning higher yields on its invested funds. By amending the State Treasurer's Investment Policy, the State would be able to increase the yields on its invested funds, thereby increasing the amount of interest income.

4 ***Develop a comprehensive long-term plan for state owned facilities and for preventive maintenance costs.***

Each year the Division of Design and Construction submits a maintenance and repair bill to the General Assembly, only to receive funding for a fraction of the request. For fiscal year 1995, the state needs to spend $328,000,000 to complete all outstanding maintenance and repair requests needed for state owned facilities. However, only $27,000,000 was appropriated for maintenance and repair. Obviously, there is a large backlog of maintenance and repair projects that go unfunded each year which is a dangerous situation as the average age of state owned facilities is 35 years. It appears there is no long-term plan for taking care of state owned facilities. By developing a comprehensive long-term plan for state owned facilities and for funding preventive maintenance costs, the state could reduce its ongoing maintenance and repair costs.

5 ***Adopt a fully performance-based budgeting system for resource allocation to be used across the entire state budget. The performance-based budgeting system should be mission-driven and oriented toward quality outcomes, encourage managers to be efficient, reward innovation and provide outcome data to decision makers.***

The Task Force identified the following benefits the State could achieve by changing its focus from the current line-item budget process to a new performance-based budgeting process:

- *Improved Accountability Information for Decision Making.* The information provided to decision makers can be used to show the effects of a given program and to test the premises of policies. As a result, decision makers can change course when necessary to modify policies and programs and improve performance.

- *Improved Efficiency.* Employees typically choose to enhance their performance of a measured objective that is recognized or rewarded by measuring high-priority areas. Managers can create the right incentives for employee performance.

- *Long-Term Evaluation.* Regular measurement of performance objectives can contribute to ongoing evaluation of goals within programs, agencies and government overall.

- *Wide Application.* The new performance-based process could be applied to all areas of state government.

The Task Force recommends the State initiate, coordinate, develop, implement, continuously monitor progress, and refine a performance-based budget process. State agencies would be responsible for developing measurable outcome-related performance measures. Further, the Task Force identified deficiencies in the State's financial management system (SAM) and recommends the State develop and implement a new statewide financial management system. This new system should support program-driven budget planning and execution based on timely and accurate statewide managerial accounting information. Also, the system should support legislative program evaluation and performance auditing of statewide programs and services.

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Risk Management

Recommendations

Implement a centralized Risk Management Division within the Office of Administration that is professionally staffed on a functional organizational basis to effectively and efficiently manage risk management exposures for the State of Missouri.

Within this effort, a loss control staff should be formed to implement an aggressive loss prevention program. An aggressive loss control program would include: educating state employees on minimizing exposure to risk; safety programs to ensure working conditions meet safety guidelines; authority or enforcement power to support the injury prevention program; increasing the investigation of claims both internally and for subrogation; and a loss prevention policy supported by the highest levels of state government. Services performed by the Risk Management Division, as well as losses incurred, should be allocated back to departments based on a department's share of cost.

The State should provide for alternative risk financing methods which could be provided by either commercial insurance or self-insurance based on a strategic state-wide plan developed by a consultant actuary. If self-insured, the State should retain all premiums in reserve for funding of losses. Within the state-wide plan, a risk management policy manual and audit should be established and updated on a periodic basis. The Legal Defense fund should be coordinated within the strategic plan.

Background

Risk management for the State of Missouri is decentralized under the Office of Administration, Department of Conservation, Department of Highways and Transportation and the University of Missouri System. These four risk management programs have different program, operational and financial structures and inequities exist among the structures. Risk management under this decentralized approach results in redundant processes, loss of economies of scale in managing exposure, inability to maximize skill sets to requirements, lack of a common risk management strategy, inefficient service levels and a high cost structure.

Worker's compensation losses for the State were approximately $20 million in 1993 (see Appendix A). Worker's compensation has increased over 90% within the Office of Administration (see Appendix A-2) in the past six years and this trend is expected to continue unless an aggressive loss control program is implemented state-wide. Drivers of worker's compensation increases include the following: broadening the definition of injury; inclusion of work-related illnesses in the coverage; continued liberalization of

worker's compensation law; increasing benefit levels and employees; and lack of a comprehensive loss control program.

Currently, the State self-assumes the risk for over $4 billion in building replacement value, according to the Director of the Division of Design and Construction, along with an unknown amount of personal property. No state-wide plan developed by a consultant actuary has been implemented to determine the risk of self-assumption. This requirement becomes even more critical upon implementing Governmental Accounting Standards Board (GASB) Statement 10 which is effective for individual entities retaining risk for fiscal years beginning after June 15, 1994. Under GASB Statement 10, governmental entities will be required to recognize the ultimate loss (if it can be reasonably measured) as an expense and a liability. In addition, incurred but not reported claims will have to be recognized. While various risk management policies are employed to varying degrees within the four risk management programs, no comprehensive risk management policy has been developed for the State. The last risk management audit for the Office of Administration was in 1980, shortly after the division was formed. No comprehensive risk management audit has been performed in the other programs. Presently, the risk management program of the Office of Administration receives no notice of pending lawsuits until the Attorney General settles and orders a payment.

Rationale

Centralizing risk management will eliminate redundant processes within and among departments, provide economies of scale in managing risk, enable a professional staff to be developed that can maximize skill sets, provide a common risk management strategy, and provide the lowest cost structure while improving service levels. These results from centralization of risk management have been extensively documented in both the private and public sectors and can be realized by the State of Missouri. Major companies like Ford Motor Company, General Motors, IBM, Xerox, Union Carbide, Pepsi-Cola, Delta Airlines, Digital and Sprint are currently reaping the benefits of centralization. Centralized risk management programs in the Midwestern states of Kansas, Wisconsin, Arkansas and Minnesota have led to significant efficiencies and savings.

Currently, an effective loss control program has not been undertaken throughout the State. A significant reduction in the $20 million of worker's compensation losses can be achieved through this program. An aggressive loss control program has been shown to be effective in all organizations committed to the program (See Appendix A-3 for an example of a commitment which could be drafted by the Risk Management Division for the signature of the Governor of Missouri). Such a program would allow the State to control its workers' compensation destiny (regardless of the other drivers) and would be a deterrent to frivolous claims. Allocating risk management services and losses back to the responsible departments will provide an incentive to control cost.

With $4 billion plus at risk, it is good business judgement to cover these risks on an actuarial-based plan. Failure to recognize this risk could lead to a catastrophic self-assumed loss with budget-impacting ramifications. A state-wide risk management policy manual with clear and concise written policies and procedures will provide consistency and better understanding of the risk management objectives and how to best achieve those objectives. A comprehensive risk management audit should be performed within a year of centralizing to ensure the benefits of centralization are being realized and areas of deficiency are documented for resolution. The Legal Defense fund should also be included within the strategic plan to ensure that all risks have been identified to the Risk Management Division in order to properly manage and for reporting of GASB Statement 10 requirements.

Implementation

In order to centralize the risk management functions within the Office of Administration, enabling legislation, and possibly a constitutional amendment, will be needed in order to require the participation of the University of Missouri, Department of Highways and Transportation and Department of Conservation. Possibly, the projected cost savings, as well as efficiencies and improved service levels realized from a centralized program, will provide sufficient incentive for voluntary participation. The risk managers should review the benefits of centralization by the end of 1994 and agree to sign a voluntary participation agreement.

Cost/Benefit of Centralization

Cost of centralization - minimal one-time cost.

Savings from centralization - $200,000 annually (see Appendix A-4).

Soft benefits with significant potential savings:

- elimination of redundant processes,
- common risk management strategy,
- economies of scale in managing risk,
- improved service levels,
- development of a professional risk management staff,
- elimination of administrative cost or additional budget request to obtain funds for loss replacement,
- reserve fund earning money reduces premium/loss cost, (i.e., present value of money for future losses).

Cost/Benefit of an Aggressive Loss Control Program Under a Centralized Risk Management Program

Cost of a professional loss control program - $100,000 (see Appendix A-5).

Average savings resulting from a professional loss control program - $7.82 million in 1994/$41.48 million for 1995-1998 (see Appendix A-6).

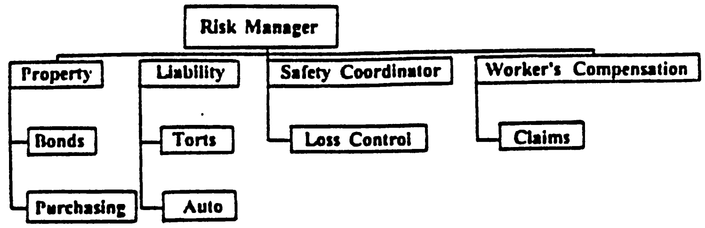
Cost of Performing Actuarial Studies by a Consultant Actuary

Actuarial consultant studies - $55,000 - $75,000
(based on prevailing estimated consulting rates).

Dick Hanson, Commissioner of the Office of Administration, should be assigned overall accountability for implementation. Implementation should occur within three months of enabling legislation and/or a constitutional amendment, or voluntary participation agreement.

To foster a successful implementation, it is recommended that the four managers of the respective risk management departments provide a proposed organizational structure, and assign responsibilities and cost/benefit justification and guidelines on how positions would be filled in a nondiscriminatory manner. It is possible that, by having an opportunity to provide input, departments would be more committed to centralization. An example of a proposed risk management organization follows:

Proposed Risk Management Organization:



* Organize financially and administratively in the Office of Administration.
* Functionally centralize statewide into specific areas of risk management.
* Appoint one person in each department responsible for safety to give managers more responsibility to make decisions affecting their programs.
* Arrange present staff to accommodate this organizational chart.
* Cost allocation to departments.

To improve operating effectiveness, the proposed organization should be centralized into four functional areas with a risk manager to provide direction and leadership. Each area would have full responsibility for their activities.

Final Report
Debt Policy

Recommendation

Create an effective debt management policy for the State of Missouri, allowing the State to maximize its financial resources and improve the effectiveness of state government.

Background

The State of Missouri has no formal policy or criteria for the effective use of debt. The State has issued general obligation bonds through the Board of Fund Commissioners, direct revenue bond debt through the Board of Public Buildings and the Department of Natural Resources and direct lease revenue bond debt through the Regional Convention and Sports Complex Authority, the Economic Development, Export and Infrastructure Board and the Southeast Missouri Correctional Facility, Inc.. The State has issued indirect revenue debt (dedicated revenue sources) through nine colleges/universities, the Highway and Transportation Commission and Junior College Districts. The State has also issued debt through conduits such as: the Health and Educational Facilities Authority; the Agricultural and Small Business Development Authority; the Higher Education Loan Authority; the State Environmental Improvement and Energy Resources Authority; the Economic Development, Export and Infrastructure Board; and the Housing Development Commission. There is no coordination or communication between these issuers when debt is being issued. The lack of a formal debt policy, including the use of short-term borrowing to meet cash flow requirements and the use of lease-purchase options to obtain facilities for the operation of state government, hinders the effectiveness of state government. See Appendix B for more information on the issuers and the type of debt they issue and Appendix C for outstanding amounts.

Rationale

The establishment of a debt policy will create several opportunities for the State to use its resources more effectively and efficiently. But more importantly, a debt policy would help protect the State's "triple A" rating. All of the departments of state government and political subdivisions that issue debt should benefit from a debt policy. Further, the use of tax-exempt debt can be seen as a vehicle to obtain additional federal money. In some cases, state debt can be used as the State's match. The facilities of the State could be improved through the creation of a debt policy. This would be accomplished by linking capital budgeting to debt management. By consolidating issuers and defining the type of debt issued, the State could realize cost savings through reduced interest rates (i.e., using general obligation debt instead of revenue bond debt or revenue bond debt instead of lease-purchases). Appendix D gives an example of the differences in interest rates.

Implementation

A draft of the Debt Policy has been assembled by the COMAP, Fiscal Policy Task Force. This draft should be viewed as a starting point for the debt policy. A review period should be created, allowing individuals to participate in the creation of the debt policy. See Appendix E for the draft debt policy.

An ad hoc Committee on Debt Management should be created. The Committee should consist of members of state government and the private sector. The Committee should not be greater than 12 people, six from both the private sector and state government. The Committee would continue the development and implementation of the debt policy. The approximate duration of the Committee would be from August through December 1994 or until the debt policy is sent to the Governor. There would be no cost to the State for this Committee. It is felt the creation of this Committee would foster greater cooperation and acceptance of a State Debt Policy for all the issuers of state debt. Members of the COMAP, Fiscal Policy Task Force (Debt Subcommittee) would be willing to serve on the committee to implement this recommendation.

Members of the Committee on Debt Management should represent the following:

State Government	Private Sector
Commissioner of Administration	Bond Counsels
Members of the General Assembly	Investment Bankers
State Departments and Agencies	Buyers
State Universities	

The Fiscal Policy Task Force recommends that the debt policy be submitted to the Governor by January 1, 1995. Depending on the contents of the debt policy, legislation might be required. The Committee would need to address the timing and any necessary legislation.

The debt policy should include guidelines or criteria on the following:

<u>Purpose of Debt</u>

Include reasons for debt financing.

<u>Debt Affordability and Debt Limits</u>

Establish an amount of debt that is viewed as affordable.

Establish debt ratios (ranges) as guidelines to follow.

- Net Tax-Supported Debt Per Capita
- Net Tax-Supported Debt as a Percent of Personal Income
- Net Tax-Supported Debt as Percent of Revenues

Debt should not be used for operating purposes.

Provide a mechanism for compliance with set ratios.

Include a schedule of all tax-supported outstanding debt.

Linking Capital Budgeting to Debt Management

Provide for a well-formulated capital planning process.

Capital planning should be multi-year.

Capital planning should provide for mechanism to establish priorities to determine which projects to fund.

Provide a link between debt decision and the operating budget (i.e., decision to construct a facility should be linked to operating cost to staff and operate the facility).

Types and Structure of Debt to Issue

Provide guidelines on the maturity and size of issue.

30 years or less (in accordance with the useful life of the asset).

$25 million or greater for general obligation debt and direct revenue debt.

No size constraints for indirect revenue debt or conduit debt.

Appropriate use (if any) of short-term debt for cash flow purposes.

Criteria on when to use lease-purchase versus direct purchase.

Criteria on when to refinance, such as level of present value savings and legal reasons, guidelines on savings structure (up front or annualized) and funding of escrow (open markets vs. SLGS).

Use of Debt Versus Cash "Pay-As-You-Go"

Establish pay-as-you-go standards and criteria for when debt should be issued.

Consolidating and Reporting on Total Debt/Coordinating Debt Management

Consolidate issuers that duplicate services (no more than three issuers of each type of debt).

Provide a mechanism for coordination among state issuers and state conduit issuers.

Suggest that each state-supported higher education institution work with the Department of Higher Education in connection with capital acquisition and budgeting.

Require all issuers of debt to submit an annual debt plan for approval to the Governor.

Require an annual review of the debt policy.

Method of Sale

Provide criteria to show when a negotiated sale would be more beneficial to the State than a competitive sale.

Provide guidelines on selection methods for professionals involved in the sale (i.e., financial advisor, bond counsel, paying agent).

Rating Agencies

The debt policy should address the importance of Missouri's "triple A" rating.

New Programs

Investigate a bonding program for the Highway and Transportation Commission.

Investigate the feasibility of creating a Missouri Municipal Bond Bank to facilitate the issuance of debt among smaller municipalities.

The Office of Administration should be responsible for organizing the Committee on Debt Management and the successful completion of the State Debt Policy.

Final Report
Investment

Recommendation

Amend the State Treasurer's Investment Policy to extend maturities and expand the types of securities in which the State is allowed to invest.

Background

The current Investment Policy utilized by the State Treasurer's Office is restrictive, thereby preventing the State from maximizing its financial resources. The State is limited in the type of securities and the length of time it can invest its funds by the Missouri Constitution and Statutes. Article IV, Section 15 of the Missouri Constitution describes the duties of the State Treasurer specifically related to custody, investment and deposit of state funds. Chapter 30.260 of the Missouri Statutes guides the State Treasurers' investment of time and demand deposits. Constitutional provision and statutory law excessively restrict the State from earning higher yields on its invested funds.

Rationale

By amending the State Treasurer's Investment Policy, the State would be able to increase the yields on its invested funds, thereby increasing the amount of interest income.

Implementation

The Investment Policy should be amended to allow the State to:

- Extend the maturities of U. S. Treasury and U.S. Agency Securities to a maximum of 10 years.
- Invest in Commercial Paper with a maximum maturity of 270 days, minimum maturity of 30 days, rated Al/P1, limited to $25 million per issuer.
- Invest in bank Certificates of Deposit, maximum maturity of five years, minimum maturity of one month, collateral as required by law.
- Invest in Mortgage Backed Securities (including CMO's), maximum maturity three years, additional due diligence required.
- Purchase and sell Repurchase Agreements, maximum maturity one year, minimum

daily, used for temporary liquidity requirements.

- Invest in Money Market Fund (Sweep Accounts), U.S. Government Securities only.

- Participate in Securities Lending, maturity four years, collateral like kind not to exceed one year beyond security of traded obligation.

- Acquire the services of an Investment Advisor (if desired) to manage the portfolio of the State and advise the Internal Investment Committee located within the State Treasurer's Office.

- Enter into rate Swap Agreements.

The Investment Policy should provide that the State Treasurer approve security dealers subject to an annual review and provide for the safekeeping of securities by an approved third party, D.T.C. or delivery. It should also provide for the continued review of the policy.

A critical component to improving the earning potential of the State's investment pool is cash flow forecasting from each agency and the Office of Administration. Cash flow forecasts should be required from each agency and updated monthly to project future income and expenditure plans of each agency, such that the State Treasurer can invest the State's funds for optimum earnings. The Investment Policy must insure that the State Treasurer receive accurate and timely cash flow forecasts from each agency.

In order to change the type and maturities of securities the State can invest, Article IV, Section 15 of the Missouri Constitution and Chapter 30.260 of the Missouri Statutes would need to be amended. A constitutional amendment would first need the approval of the House and Senate. The Fiscal Policy Task Force suggests that legislation be introduced in the First Session of the Eighty-Eighth General Assembly to change Article IV, Section 15 of the Missouri Constitution. It would then go to the Secretary of State to be placed on the next general election ballot. The earliest a constitutional amendment could go to the vote of the people would be November, 1996 unless a special election were called.

The State Treasurer's Office would be responsible for implementation of this issue.

The State of Missouri would substantially increase the interest earned on its invested funds by adopting the recommended changes to the State Treasurer's Investment Policy. The yield on the State's invested balance would be increased by lengthening the average maturity of investments. Interest earned would also increase due to improved cash flow information provided to the Treasurer that would permit the optimum investment of additional funds. Estimates of the potential additional interest income for FY 94 are $2.6 million (based on conservative calculations) to $10.9 million (based on more aggressive

calculations). Both amounts are based on actual FY 94 earnings of $54 million and an average daily balance of $1.5 billion.

Final Report
Asset Management

Recommendation

Develop a comprehensive long-term plan for state-owned facilities and for preventive maintenance costs.

Background

Each year the Division of Design and Construction submits a maintenance and repair bill to the General Assembly, only to receive funding for a fraction of the request. For fiscal year 1995, the State needs to spend $328,000,000 (Appendix F) to complete all outstanding maintenance and repair requests for state-owned facilities. However, only $27,000,000 (Appendix G) was appropriated for maintenance and repair. There is a large backlog of maintenance and repair projects that go unfunded each year which is a dangerous situtation since the average age of state-owned facilities is 35 years (Appendix H). It appears there is no long-term plan for taking care of state-owned facilities.

The task force recognizes that the voters approved amendment #4 on August 2, 1994. Amendment #4 authorizes the issuance of general obligation bonds totaling $250 million for new construction projects. There is a provision in this bond issue for maintenance and repair on the new facilities.

Rationale

By developing a comprehensive long-term plan for state-owned facilities and for funding preventive maintenance costs, the State could reduce its ongoing maintenance and repair costs.

Implementation

A comprehensive long-term plan should include the following:

> Develop a long-term plan that identifies preventive maintenance and repair costs and sets priorities among the more than 4,800 state-owned facilities (Appendix I). This long-term plan would provide a link between the capital budget and the operating budget.
>
> Issue debt to bring all state-owned facilities up to standard. A central element of a debt policy is to provide long-term realistic plans that identify and set priorities for

the needs of the State and help manage capital decisions within the State's debt capacity. It is important for the State to link debt planning and capital planning to allow for more informed investment decisions.

Establish a standing legislative committee on capital improvements in both the House of Representatives and the Senate. Each committee would have continuing oversight of facilities management and capital program issues. Members should include budget/appropriation committee members and program committee chairs of certain agencies with major asset holdings. Standing committees in both chambers would provide the General Assembly with a sense of history and continuity regarding facilities management and capital improvements.

Agencies should be required to submit to the Office of Administration, Division of Design and Construction, five-year plans for capital improvements and maintenance and repair projects. These plans would be incorporated into the currently required five-year plan for repair, construction and rehabilitation of state properties. Agencies would identify their roles, responsibilities and long-range strategic plans. This will enable the Division of Design and Construction to make more informed decisions after considering the long-range plans and the agencies' needs.

Create a statutory Maintenance and Repair fund which would be used for all state agencies except the Department of Conservation which has its own funding. The fund would also include the Department of Higher Education since they have numerous non-revenue producing buildings. Included in the fund would be all transfers from new construction, remodeling and renovation appropriation actions, and lapse funds from all capital improvement projects. All new construction project budget/appropriations over $100,000 would include a percent sinking fund factor that would be transferred, upon appropriation of the project, into this fund. Lapse funds from capital projects would automatically be transferred into this fund. The fund itself would be exempt from the general lapse provisions.

All new construction projects sinking fund factors and project lapse amounts placed into the fund would be accounted for by the original fund source. This would insure that dedicated fund sources would be retained for use by the original fund source purpose/agency. The Maintenance and Repair fund could only be used for the maintenance and repair of facilities. All projects and expenditures would be subject to the normal capital appropriation process. No appropriations would be made from the Maintenance and Repair fund until the balance equals 2% of the total replacement value of state facilities.

On an annual basis, a formula should be used to calculate an amount which would be appropriated for ongoing maintenance and repair. We suggest the replacement cost of state-owned buildings multiplied by 1.5%. This percentage is arbitary.

Our research revealed that the percentage used by other states ranged from 1% to 3%.

Increase the appropriation in agency operating budgets for operational maintenance and repair from the current level of .1% to .5% of replacement value for departments other than Higher Education and Conservation. This would be an increase from the current $2.4 million ($1.1 of which is General Revenue) to approximately $9.5 million ($7 million of which would be General Revenue). This increase could be spread over a period of 3 years, with $1,750,000 in General Revenue increments. In addition, the limit on individual project expenditure should be increased from $10,000 to $25,000. The $10,000 project limit was established by the Division of Design and Construction as a guideline. Currently, agencies are permitted to obtain bids without going through Design and Construction if the project is $10,000 or less. The advertising threshold requirements for capital improvements would be increased correspondingly.

For large construction projects (over $5,000,000), the State should first authorize the project and then fund the design. We are using a $5 million threshold because projects under this amount tend to be small construction type projects. Construction funding should be appropriated after the design is complete. This will provide a construction cost target and enable matching of final cost to known design. Appropriating a firmer estimate of construction cost will help eliminate over funding or cost overruns on projects as well as reduce shortfalls on construction. This will assist everyone involved in the budgeting/appropriation process to anticipate the required funding levels.

A variation of this process, would be enhancing the pay-as-you-go capability of the State for large capital projects. The project would first be authorized and then the design funded, but subsequent appropriations for construction would reflect the fiscal period funding rather than full, multi-year costs being appropriated in one budget year. The standing legislative committees would review these projects each year. If they felt it was needed, they could request that the Division of Design and Construction justify continued appropriation.

Establish a maintenance and repair quality assurance team which develops standards and evaluates agencies' practices and procedures for the maintenance of their facilities. This team would be comprised of personnel from each area of state government. No additional employees would be hired. Agencies would be required to adhere to the standards developed by this group.

Develop a policy which rewards agencies for sound maintenance practices and penalizes poor practices. Possibly, monetary awards of one-time program expense and equipment based on Design and Construction's evaluations of agencies' maintenance practices relative to the standards developed by the quality assurance team. Conversely, the agency would be required to make a payment from existing

program funds when capital improvements are required because of poor maintenance practices.

Change the statutes to eliminate the lapse provision for capital improvement appropriations. This would eliminate a duplication of time and effort spent on the reappropriation of funding ongoing projects. The standing legislative committees (recommended earlier) would conduct reviews of the status of current capital improvement projects. The Division of Design and Construction would be required to explain why the funds lapsed and what steps they would take to get the project back on schedule to eliminate future lapse situations.

Change the statutes to clearly define the agencies' ability to contract for repairs and improvements at a limit of $25,000 rather than the current $10,000. In addition, the director of Design and Construction should be permitted to authorize any agency to contract for maintenance and repair and minor alterations if, in the director's opinion, these projects could be handled best by the agency.

Criteria should be developed to determine whether it is more efficient for the State to build or lease a building. The criteria would be applied on a project by project basis. It may be more cost effective for the State to lease a building and let the lessor take care of the maintenance and repair costs. Our research showed that several states have found it advantageous to develop a policy for building vs. leasing a facility.

Upgrade and expand the Land and Buildings System (LABS) to permit the retention of extensive data on each state-owned facility. This would include information on all maintenance projects. The system should be able to sort capital improvement and maintenance and repair projects by area, agency, maintenance due dates, and type of maintenance required.

In working with the Division of Design and Construction to develop these recommendations, we tried to determine the dollar amount the State would save by funding all maintenance and repair requests. It became apparent that this would be difficult to do. It is not as simple as applying an inflation factor to the current cost of the request. Several other factors must be considered that cannot be quantified.

Maintenance and repair requests are separated into four categories with zeroes being the worst (Appendix J). A project with a zero rating must be taken care of immediately. We assumed that most projects with a rating of one would move to a zero rating the following year but this is not always the case. A project may retain a one rating for several years while a project with a two rating may deteriorate quickly and move to a zero rating within one year. This makes it difficult to quantify the State's savings.

There has to be a commitment towards developing and funding a comprehensive long-term plan for state-owned facilities. The standing legislative committees for capital

improvements will require action by both the House of Representatives and the Senate.

Statutory authority for the Maintenance and Repair fund could be obtained in the 1995 legislative session. Plans for funding the Maintenance and Repair fund could then be implemented during the 1996 session.

The Office of Administration, Division of Design and Construction would be responsible for working with the executive departments, the Judiciary and the General Assembly to develop long-term plans to set priorities for capital improvements, maintenance and repair. They would also be responsible for developing the five-year plan and working with agencies including Higher Education to plan future construction projects.

Final Report
The State Budget Process

Recommendation

Adopt a fully performance-based budgeting system for resource allocation to be used across the entire state budget. The performance-based budgeting system should be mission-driven and oriented toward quality outcomes, encourage managers to be efficient, reward innovation and provide outcome data to decision makers.

Background

The budget cycle is a rigorous one requiring significant commitment of time by the leadership and staff of both the executive branch and legislative branch of government. It is the primary vehicle for advocates, providers, consumers and citizens to provide input into the role of state government and use of state tax dollars.

The current budget process offers many successful components. It is a highly disciplined process, structured to develop state-wide needs into gubinatorial recommendations with additional input from the legislative branch. The process is highly visible and offers various intervals for advocates and citizens to interject their perspectives. The public input starts with a solicitation by departments for development of their budget requests and continues through opportunities to communicate with legislators. The focus of the budget process is very specific and ultimately results in decisions for action to address state-wide needs.

A number of resources are committed in the existing budget process. The executive branch offers significant staff time, generates a plethora of documents for supporting documentation and dedicates a specific state-wide information system to the process. On the legislative side, a sophisticated system of committees has been established, an enormous amount of time is committed to the process and a number of legislative representatives devote themselves to the outcome.

An analysis of the State's current budget process was performed in order to determine if the State is effectively and efficiently utilizing taxpayer dollars. Our initial perception was that the current process ***does not allow*** the State to:

- Utilize long-term strategic planning in the budget development for the entire State;
- Develop a more unified budget with performance measurement input from the legislature, executive branch and departmental agencies;
- Match performance measurement outcomes with the related allocation and expenditure of funds to ensure accountability;

- Perform a cyclical review of the components of revenues (resource identification);
- Encourage and reward creative ideas (at the departmental and individual employee level) that would lead to more efficient operations as well as efficient utilization of the public dollar; and
- Maximize efficiencies inherent in a more technologically advanced financial management system.

A State Budget Survey was sent out to verify our initial perception of the State's existing budget process (See Appendix K). It can reasonably be concluded that the survey results confirm our initial perceptions of the State's current budget process.

Rationale

The task force identified the following benefits the State could achieve by changing its focus from the current Line-Item budget process to a new Performance-Based budgeting process:

- *Improved Accountability Information for Decision Making.* The information provided to decision makers can be used to show the effects of a given program and to test the premises of policies. As a result, decision makers can change course when necessary to modify policies and programs and improve performance.
- *Improved Efficiency.* Employees typically choose to enhance their performance of a measured objective that is recognized or rewarded by measuring high-priority areas. Managers can create the right incentives for employee performance.
- *Long-Term Evaluation.* Regular measurement of performance objectives can contribute to ongoing evaluation of goals within programs, agencies and government overall.
- *Wide Application.* The new performance-based process could be applied to all areas of state government.

The task force researched other states that have moved toward a performance-based budgeting system. The task force identified a few states that are involved with performance-based budgeting have also adopted a biennial budget. This apparently allows for sufficient time to implement and monitor a fully performance-based budgeting system and time for legislative deliberation of spending decisions based on program outcomes. Although it is not necessary to adopt a biennial budget in order to implement a performance-based budgeting process, the State may want to consider this option in the long-term.

The following compares the existing line-item based system with the proposed performance-based budgeting system:

Current Budget Process *(Line-Item Budgeting)*	***New Budget Process*** *(Performance-Based Budgeting)*
• An approach that aims at providing detailed information on items of expenditures, with little or no effort to relate them to each other by reference to goals, performance results.	• A continuous performance-based budget that supports a continuous performance management system and ensures accountability for results. Provides a framework for measuring outcomes--not merely processes or workloads--and organizes the information so that it can be used effectively by policy makers and administrators.
• "Use it or lose it" attitude that discourages saving money.	• Increased managerial flexibility. • Emphasis on efficiency while still exercising fiscal controls.
• Focus on inputs rather than on outputs.	• Provides means of judging policies and programs by measuring their outcomes or results against agreed upon standards.
• No accountable connection between budgeting and long-term planning. • Limited information for legislative decision making.	• Legislative deliberation of spending decisions based on more long-term strategic planning and program evaluation.
• A lack of information on program accountability.	• Increased managerial accountability through regular, periodic performance and financial management reporting.
• A single focus on needs identification rather than resource identification.	• An approach that relates resources to activities.
• Emphasis on fiscal control.	• A budget system that is mission driven and results oriented.

The State's current financial management system (SAM) does not have the capability to support a performance-based budgeting system. Designed in the 1970's, this system has numerous deficiencies (See Appendix O). Based on its investigations, the task force found that programming is conducted in a patchwork fashion, that cumbersome batch processing does not allow for on-line entry of data, that the accounting/budget interface requires manual input and that no information is available related to performance or outcomes. In fact, many agencies have developed their own budgeting systems on PCs to circumvent the deficiencies of SAM. Therefore, to move toward a fully performance-based budgeting system, the State should develop and implement a new statewide financial management system.

Implementation

1. The Division of Budget and Planning within the Office of Administration should guide all of state government to initiate, coordinate, develop, implement, continuously monitor progress and refine a performance-based budget process. State agencies should be responsible for developing measurable outcome-related performance measures (see Appendix N for definition of terms) consistent with guidance from the Division of Budget and Planning. To that end, each state agency should:

   a. Embrace and participate in the integrated strategic planning process as proposed by the Organizational Planning Task Force. The Division of Budget and Planning should work with departments and provide sufficient time (without adding staff) to perform the following steps. It should be noted that the first three steps are absolutely essential for the fourth step to be meaningful.

      1. Identify Statewide Priorities. Long-term goals and priorities for the entire state.
      2. Strategic Planning. Mission and vision.
      3. Operational Planning. Operational objectives.
      4. Specify Results (Accountability). Performance outcome measurements.
      5. Budget. Performance and financial data.

   b. Involve agency representatives and external constituencies in the development of statements of mission, goals, objectives and performance measures.

   c. Develop written defined performance measures that quantify desired organizational outputs, responsibilities, results, products and services and, where possible, develop unit cost measures for evaluating the program efficiency. There are numerous research guides that have developed outcome related performance measurements (i.e., GASB Research Report, Service Efforts and Accomplishments Reporting: Its Time Has Come).

   d. Establish teams composed of agency managers, supervisors and employees to implement agency goals, objectives and performance measures.

   e. Use performance measures to work toward achievement of identified missions, goals and objectives.

   f. Evaluate agency performance with the Division of Budget and Planning and legislative representatives.

   g. Refine cyclically based on the budget and planning process.

2. The Division of Budget and Planning should solicit representatives of the General Assembly and all state departmental agencies for involvement in this entire process. In addition, the Division should also be responsible for the following:

   a. Assure the development of a state-wide system of performance measures designed to increase the efficiency and effectiveness of state programs and services;

   b. Provide agencies with direction on the appropriate format for reporting performance measures to assure consistency across agencies;

   c. Ensure legislative input in the state agencies development of performance measures; and

   d. Facilitate the development of performance measures in those instances where a particular measure involves more than one state agency.

3. Based on the deficiencies of SAM (see Appendix O), the State should develop and implement a new state-wide financial management system. This new system should support program-driven budget planning and execution based on timely and accurate state-wide managerial accounting information and the system should support legislative program evaluation and performance auditing of state-wide programs and services.

   The Office of Administration, Division of Budget and Planning, should devise and supervise a state-wide financial management system for all state agencies. The Division, in coordinating with representatives of both the General Assembly and departmental agencies, should prepare policies and procedures for implementing and operating a financial management system for all agencies in state government and for measuring implementation.

   In order to assure that the State's investment in a modern and complete state-wide financial management system is fully implemented, every agency and unit of state government should:

   a. Cooperate and comply fully with policies, procedures and deadlines prepared by the Division of Budget and Planning.

   b. Comply fully with policies and procedures for operation of the financial management system.

   The Division of Budget and Planning should report to the Legislature on the following:

   a. Progress in implementing the financial management system as to preparation of financial statements, non-financial management information and the ability of the system to support legislative program evaluation and performance auditing.

b. Compliance by each agency and unit of state government with policies and procedures for implementation of the financial management system.

4. In order for managers to administer programs efficiently, the State should look for opportunities to allow for more flexibility within appropriations.

   State law should be amended to enable agencies to carry forward a portion of their savings from one year to the next. The law should establish the maximum proportion of savings which may be retained and the Office of Administration should establish the proportion which agencies would be authorized to retain in the forthcoming fiscal year. The Office of Administration should devise criteria by which agency savings are evaluated and should conduct such evaluations annually. Any moneys retained should be identified as reinvested in each agency's appropriation and should only be used to enhance efficiency and increase productivity. Moneys should not be retained unless recommended by the Governor and approved by the General Assembly.

5. Resource identification should become a structured part of each department's budget process in the new performance based budget system. Definite opportunities exist to build on the strengths of the current process through a cyclical review of the components of revenues. (Several examples of innovative partnerships and resource identification are provided in Appendix L.) The State should ensure unrestricted General Revenue dollars are maximized to meet identified needs and established goals by:

   a. Viewing General Revenue as A resource rather than THE source; and

   b. Generating the appropriate mix of funding streams.

   One example of revenue stream analysis would be a review of the existing fee structure. The State of Missouri imposes over 200 fees (see Appendix M). Fees can be clustered into three broad areas. Fees are established simply to generate revenues, to affect behavior, (i.e., late charge) or to cover the cost of a service. A formalized review of the 200 plus fees imposed by Missouri is not currently performed. Without such a review it is uncertain whether the fee is fulfilling its stated intent and, in the case of user fees, whether they are covering the cost of doing business. When user fees are inadequate, unrestricted General Revenue makes up the shortfall. Such an outcome should be the result of a positive action, not because of the lack of review.

   Going beyond the current process of estimating and projecting marginal growth in General Revenue for the following state fiscal year, initiative and proposed budget expansion must be viewed in the context of:

   - Redirecting existing general revenue resources where applicable;
   - Maximizing partners' contributions, especially federal participation;

- Reviewing the existing fee structure, especially those with the intent of covering the cost of doing business; and
- Evaluating communities' resources.

Potential Barriers

The State of Missouri should carefully consider the following potential barriers when attempting to design and implement a performance-based measurement system:

Trust. A fundamental distrust exists between the State's managers and its appointed and elected officials. The current budget process involves an adversarial relationship between the executive (state agencies) and legislative branches, which results in a great deal of political maneuvering. Agency managers view the legislature's decision-making process as micro-managing their activities, while the legislature sees it as holding agencies accountable for their programs.

This lack of trust is the primary reason for involving the legislature, executive branch and the state agencies in setting up performance measurements. Because the legislature has input into the development of outcome measurements, they can be shown (through those measurements) that there is no need for many of the rules and budget-line items that hamstring most public managers.

Existing Norms of Behavior and Motivation. State employees and managers are accustomed to counting only their inputs/outputs and rarely measuring project results. One cannot design a performance measurement system that can aid policy making without also affecting performance. We should be sensitive to the effect that performance measurement has upon staff behavior.

Performance Measurement Politics. People tend to overlook politics when designing performance measurement systems. When legislators and managers use performance information for such decisions as setting priorities among programs, changing program processes, allocating funds among programs and developing workload standards, some interests stand to gain and others stand to lose. Also, when workers believe that performance comparisons can help or hurt them, they may alter their performance to achieve "good" performance ratings. Therefore, we need to consider who stands to gain or lose if the performance measurement system collects information on only selected dimensions.

FISCAL POLICY TASK FORCE

APPENDICES

MAJOR COST OF RISK TO THE STATE OF MISSOURI

WORKER'S COMPENSATION

Fiscal Year 1993

OA -	**$11,000,000 (approximately)**
MHTD -	**$ 4,575,000 (approximately)**
MDC -	**$ 506,000 (approximately)**
UM System -	**$ 3,500,000**
	$19,581,933

Source: Cost of Risk Summary reports from the four risk management programs.

Office of Administration, Division of General Services
Workers' Compensation Expenditures by Year
as Reported Through Workers' Compensation.

Fiscal Year	Total Costs
1993	$10,277,690
1992	9,675,940
1991	7,273,457
1990	6,572,094
1989	6,098,067
1988	5,420,122

Loss Prevention Policy

Competitive pressures of managing our business in today's economy dictate the need to minimize accidental losses. Since accidents deny us our human and financial resources, accidents can impair the quality of our operational capabilities, customer services and detract from our strategic goals. Directly or indirectly, the costs of accidents are measured in human terms or loss of profit to the Corporation.

The continuing policy of Sprint Corporation is that an effective loss prevention program be established in each of the Business Units of the Corporation. Each program will identify and control those exposures which can produce injury to persons, interrupt service to our customers, or damage property, equipment or materials.

The Senior Executive of each Business Unit is charged with taking an active role in ensuring that a loss prevention program is established commensurate with the risks to the business. Loss prevention procedures and programs must be clearly communicated in writing, implemented throughout the Business Unit and monitored for effectiveness.

The responsibility and accountability for loss prevention within the Business Unit must be clearly defined at all levels. Each manager's ability to supervise their exposures to risks in their area of responsibility should be included as a measure of job performance.

The integration of controlling accidental human and financial loss into our daily business activities will contribute toward meeting Sprint Corporation's goal to be the "Best Telecommunications Company" in the world.

William T. Esrey
Chairman and Chief Executive Officer
Sprint Corporation

Savings of Centralization:

Hard Savings: Annual savings of approximately $200,000 could be achieved by the reduction of 4 risk managers to one risk manager.

Salaries:	**$50,000/manager**	**$150,000**
Benefits:	**32% loading**	**48,000**
		$198,000

Source: Payroll records from Office of Administration, Division of Accounting.

Costs: **Annual expenditures of $100,000 for organizing and staffing of three full-time safety/loss control specialists.**

Salaries:	**$24,000 safety/loss control specialist**	**=**	**$72,000**
Benefits:	**32% loading**	**=**	**23,040**
			$95,040

Source: Payroll records from Office of Administrtion, Division of Accounting.

The following assumptions are based on a five year (1995-1998) trending for the total cost of workers' compensation for Missouri .

Linear Estimation
for Total Cost of Workers' Compensation for Missouri
(Correlation Coefficient = .99522)

	y	Actual	Est-Actual Difference
1991	13,540,167	13,364,000	176,167
1992	16,648,667	17,001,000	-352,333
1993	19,757,167	19,581,000	176,167
1994	22,865,667		
1995	25,974,167		
1996	29,082,667		
1997	32,191,167		
1998	35,299,667		

Source: George I. Davidson, F.S.A., Missouri Department of Insurance.

* $122 million will be the total cost of workers' compensation to the State of Missouri in the next four years if the present trend continues.

Based on the results compiled by Rollins, Hudig and Hall, Inc. regarding cost reduction methods of workers' compensation achieved by their clients, the following cost-saving percentages could be achieved by Missouri if a rigorous safety/loss control program is implemented.

*** Range of 15% - 60% reduction in workers' compensation incidents. Average of 34% has been cited by Rollins, Hudig and Hall, Inc.**

The following cost savings assumptions could be achieved by Missouri by using the above percentages:

1994 Savings

Low	Average	High
$23m	$23m	$23m
x .15	x .34	x .60
$3.45m	$7.82m	$13.8m

1995-1998 Savings

Low	Average	High
$122m	$122m	$122m
x .15	x .34	x .60
$18.30m	$41.48m	$73.20m

Appendix B

BOARD OF FUND COMMISSIONERS:
Created: RSMo 33.300

Members: Governor, Lt. Governor, Attorney General, State Treasurer, State Auditor, Commissioner of Administration

Type of Debt/ Misc.: General Obligation Bonds (Water Pollution Control & Third State Building Bonds)

Full faith, credit and resources of the State

Bonds must be sold at a public sale.

Bonds must be retired serially by installments not to exceed 25 years from date of issue.

Interest to be paid semi-annually, at least within one year of issuance. Principal to be paid annually.

General Assembly authorizes the contracting of an indebtedness on behalf of the State. Action taken by the Board with reference to issuing bonds shall be by resolution adopted by the majority of the members, but no bonds shall be authorized to be sold without the consent of the Governor.

Water Pollution Control Bonds: (RSMo 644.500-644.561)

Purpose: To provide funds for the protection of the environment through the control of water pollution, and to carry on the program of planning, financing and constructing sewage treatment facilities. Also to provide funds for the control of water pollution and improvements to drinking water systems and for storm water control, through grants and loans administered by the Clean Water Commission and the Department of Natural Resources.

Constitutional Auth.	Authorization Amount	Authorization Remaining
Article III Section 37(b)	$150,000,000	$0
Article III Section 37(c)	$275,000,000	$25,505,760
Article III Section 37(e)	$200,000,000	$225,000,000

Third State Building Bonds: (RSMo 108.900-108.914)

Purpose: To provide funds for improvements of state buildings and property, providing additions thereto or additional buildings where necessary and for grants for construction and improvements of rail and highway access within the State.

Constitutional Auth.	Authorization Amount	Authorization Remaining
Article III Section 37(d)	$600,000,000	$0

BOARD OF PUBLIC BUILDINGS:

Created: RSMo 8.010

Members: Governor, Lt. Governor, Attorney General

Purpose: The Board has general supervision and charge of the public property of the State.

Type of Debt/ Misc.: Revenue bonds - for the purpose of providing funds for acquisition, construction, erection, equipment and furnishing of a project (buildings or facilities for use and occupancy of the agencies and instrumentalities of the State).

Bonds shall be issued only for projects which have been approved by a majority of the House members and majority of the Senate members of the Committee on Legislative Research of the General Assembly.

Bonds may be issued pursuant to a resolution adopted by 2/3 of the Board members.

Bonds shall be sold at a public sale.

Bonds shall mature within 40 years or less of issuance.

The Board may require agencies which occupy rented quarters in the city which the project is located, to occupy quarters in the project and pay rental based on square footage.

The bonds are secured by the pledge of the net income and revenue of the project(s).

MISSOURI HEALTH AND EDUCATIONAL FACILITIES AUTHORITY:

Created: RSMo 360.010-360.140

Members: Seven members[1] (residents of the State)

Purpose: The purpose of the Authority is to help finance health and educational facilities for institutions within the State, and to assist institutions in borrowing funds at the lowest possible cost in order to provide quality medical and educational service to state residents.

Type of Debt/: Misc. Revenue bonds

Bonds may be sold at a public or private sale as determined by the Authority.

Bonds of the Authority shall be secured by pledge of the revenues, rentals, and receipts of the projects.

Bonds are not a debt or liability of the State or any political subdivision.

The Authority is assigned to the Office of Administration (O.A.).

The Authority shall annually file a report with O.A. of its previous year's income and expenditures and revenue bonds issued and outstanding.

[1] Appointed by the Governor with the advice and consent of the Senate.

MISSOURI ECONOMIC DEVELOPMENT EXPORT AND INFRASTRUCTURE BOARD:

Created: RSMo 100.250-100.298

Members: Lt. Governor
Department of Economic Development Director
Department of Agriculture Director
Nine members[1] (residents of the State)

Purpose: The purpose of the Board is to promote economic development in the State. The Board can issue its negotiable revenue bonds to provide funds for this purpose. The Board has the power to make, purchase, or participate in the making or purchase, of loans, bonds, or notes to finance the cost of projects.

Type of Debt/ Misc.: Revenue bonds or notes

Bonds may be sold at a public or private sale.

Bonds of the Board shall be secured by pledge of the revenues of the Board.

Bonds and notes shall be authorized by resolution of the Board.

Bonds shall mature within 30 years of issue date.

The Board may issue notes payable from the proceeds of bonds to be issued in the future or from other sources as the Board may specify. The notes shall mature in not more than five years.

Bonds and notes shall be exempt from any taxes and assessment except for estate taxes, gift taxes and taxes on transfers.

Bonds and notes are not a debt or liability of the State.

The Board is a part of the Department of Economic Development.

1 Appointed by the Governor with the advice and consent of the Senate.

AGRICULTURE AND SMALL BUSINESS DEVELOPMENT AUTHORITY:

Created: RSMo 348.005-348.180

Members: Seven commissioners[1] (residents of the State)

Purpose: The purpose of the Authority is to give technical assistance to local public bodies and to profit and not-for-profit entities in the development or operation of agricultural enterprises and pollution control. The Authority is authorized to issue revenue bonds to finance agricultural and small business development loans for property acquisitions and renovations and pollution control facilities throughout the State.

Type of Debt/: Misc. Revenue bonds or notes

Bonds may be sold at a public or private sale.

Bonds are secured by pledge of the revenues or assets of the Authority.

Bonds and notes shall be authorized by resolution of the Authority.

Bonds shall mature within 50 years of issue date.

Bonds and notes are not a debt or liability of the State or any political subdivision of the State.

The Authority shall submit an annual report of its activities for the preceding year to the Governor and General Assembly which contains the operating and financial statements for the Authority.

[1] Appointed by the Governor with the advice and consent of the Senate.

HIGHER EDUCATION LOAN AUTHORITY:

Created: RSMo 173.350-173.445

Members: One member of the Coordinating Board for Higher Education
Commissioner of Higher Education
Five members[1] (residents of the State)

Purpose: The purpose of the Authority is to assure that all eligible postsecondary education students have access to guaranteed student loans. The Authority has the power to issue revenue bonds to obtain funds to purchase student loan notes.

Type of Debt/ Misc.: Revenue bonds

Bonds may be sold at a public or private sale.

Bonds are secured by pledge of the revenues derived from the ownership of student loan notes and investment income.

Bonds and notes shall be authorized by resolution of the Authority.

Bonds shall mature within 30 years of issue date.

Bonds and notes are not a debt or liability of the State or any political subdivision of the State.

Interest on the bonds is exempt from taxation in the State except for estate tax.

The Authority is assigned to the Department of Higher Education.

[1] Appointed by the Governor with the advice and consent of the Senate.

MISSOURI HOUSING DEVELOPMENT COMMISSION:

Created: RSMo 215.010-215.250

Members: Governor
Lt. Governor
State Treasurer
State Attorney General
Six members[1]

Purpose: The Commission is authorized to make or purchase mortgage loans and to insure mortgage loans, the funds of which are used to develop new or rehabilitate low and moderate income housing.

Type of Debt/ Misc.: Revenue bonds or notes

Bonds may be sold at a public or private sale.

Bonds and notes are secured by pledge of the revenues of the Commission as defined in the resolution to issue the debt.

Bonds and notes shall be authorized by resolution of the Commission.

Bonds shall mature within 50 years of issue date.

Notes shall mature within 20 years of issue date.

Bonds and notes are not a debt or liability of the State.

Interest on the bonds is exempt from taxation in the State except for death and gift taxes, taxes on transfers, sales taxes, real property taxes and business and occupation taxes.

[1] Appointed by the Governor with the advice and consent of the Senate.

JACKSON COUNTY SPORTS COMPLEX AUTHORITY:

Created: RSMo 64.920-64.950 and
Created by order of the county commission and certified copies of the order filed in the offices of the Governor and Secretary of State.

Members: Five commissioners[1] (qualified voters/county residents)

Purpose: The purpose of the Authority is to plan, construct, operate and maintain, or lease or sublease to or from others convention centers, sports stadiums, field houses, indoor and outdoor convention, recreational and entertainment facilities and centers.

Type of Debt/: Misc. Revenue bonds and notes

Bonds may be sold at a public or private sale.

Bonds are secured by pledge of the general funds of the Authority.

Bonds and notes shall be authorized by resolution of the Authority.

Bonds shall mature within 50 years of issue date.

Bonds and notes are not a debt or liability of the State.

[1] A panel of nine names is submitted to the Governor by the county commission. The Governor selects five with the advice and consent of the Senate.

ST. LOUIS REGIONAL CONVENTION AND SPORTS COMPLEX AUTHORITY:

Created: RSMo 67.650-67.658

Members: Eleven commissioners[1] (qualified voters/county or city residents)

Purpose: The purpose of the Authority is to plan, construct, operate and maintain, or lease or sublease to or from others convention centers, sports stadiums, field houses, indoor and outdoor convention, recreational and entertainment facilities and centers.

Type of Debt/: Misc. Revenue bonds and notes

Bonds may be sold at a public or private sale.

Bonds are secured by pledge of the general funds of the Authority.

Bonds and notes shall be authorized by resolution of the Authority.

Bonds shall mature within 50 years of issue date.

Bonds and notes are not a debt or liability of the State or any political subdivision of the state.

[1] Up to three commissioners residents of the city appointed by the chief executive of the city with the advice and consent of the Board of Aldermen.

Up to three commissioners residents of the county appointed by chief executive of the county with the advice and consent of the county council.

Up to five commissioners appointed by the Governor with the advice and consent of the Senate.

REVENUE BONDS OF STATE EDUCATION INSTITUTIONS:

University of Missouri
Lincoln University
Northeast Missouri State University
Central Missouri State University
Southeast Missouri State University
Southwest Missouri State University
Northwest Missouri State University
Missouri Eastern State College
Missouri Southern State College
Harris-Stowe State College
Junior College Districts (RSMo 178.770-178.890)

Authority: RSMo 176.010-176.080

Purpose: Each institution listed has the power to issue and sell revenue bonds for the purpose of providing funds for the acquisition, construction, erection, equipment and furnishings necessary for the operation of the institution. Each acts through its governing body.

Type of Debt/ Misc.: Revenue bonds

Bonds must be sold at a public sale.

Bonds are secured by pledge of the net income and revenues of the project.

Bonds are authorized by resolution of the institution's governing body.

Bonds shall mature within 40 years of issue date.

Bonds and notes are not an indebtedness of the State or any educational institution.

BI-STATE DEVELOPMENT AGENCY:

Created: RSMo 70.370-70.440

Members: Ten commissioners[1]

Purpose: The purpose of the Agency is to plan, construct, operate and maintain bridges tunnels, airports, streets and terminal facilities and to plan and establish policies for sewage and drainage facilities.

Type of Debt/ Misc.: Revenue bonds

Bonds are secured by pledge of the revenues of the Agency.

Bonds shall mature within 30 years of issue date.

Bonds and notes are not a debt or liability of the State.

[1] Five commissioners appointed by the Governor with the advice and consent of the Senate and five members from the sSate of Illinois.

MISSOURI ENVIRONMENTAL IMPROVEMENT AND ENERGY RESOURCES AUTHORITY:

Created: RSMo 260.005-260.125

Members: Five members[1]

Purpose: The purpose of the Authority is to provide for the conservation of the air, land and water resources of the State by the prevention or reduction of pollution and proper methods of solid waste or sewage disposal. Also to provide for furnishing of water facilities and resource recovery facilities, to provide for the development of the energy resources of the State, to provide for energy conservation, to provide for energy efficiency projects and increase energy efficiency in the State.

Type of Debt/ Misc.: Revenue bonds or notes

Bonds may be sold at a public or private sale.

Bonds shall be secured by pledge of the revenues of the Authority.

Bonds and notes shall be authorized by resolution of the Authority.

Bonds shall mature within 40 years of issue date.

The notes shall mature in not more than five years.

Bonds and notes are not a debt or liability of the State.

[1] Appointed by the Governor with the advice and consent of the Senate.

DEPARTMENT OF NATURAL RESOURCES-STATE PARKS:

Authority: RSMo 253.210-253.280

Purpose: The Department has the authority to acquire, construct, erect, equip, furnish, operate, control, manage and regulate a project that may be suitable for the use and improvement of the state's parks and their facilities. A project can be hotels, inns, lodges, tourist cabins, dining rooms or recreational facilities.

Type of Debt/: Revenue bonds
Misc.

Bonds can be issued after the approval of the Governor and General Assembly is obtained.

Bonds must be sold at a public sale.

Bonds shall be secured by pledge of the revenues of the project.

Bonds and notes shall be authorized by resolution of the Department.

Bonds shall mature within 40 years of issue date.

No bonds will be issued and sold if private facilities are adequate in the given park area.

Bonds and notes are not an indebtedness of the State or the Department.

APPENDIX C

STATE OF MISSOURI
STATE INDEBTEDNESS
June 30, 1994

	Series	Maturity Date	Amount Issued	Amount Outstanding
General Obligation Bonds:				
Water Pollution Control	Series A 1972	1973-1997	$ 20,000,000	$ 3,565,000
Water Pollution Control	Series A 1974	1975-1999	8,000,000	2,450,000
Water Pollution Control	Series B 1974	1975-1994	15,000,000	1,235,000
Water Pollution Control	Series A 1977	1978-1997	31,494,240	7,115,000
Water Pollution Control	Series A 1986	1987-1996	60,000,000	5,155,000
Water Pollution Control - Refunding	Series A 1987	1988-1997	49,715,000	7,915,000
Water Pollution Control	Series B 1987	1988-1994	35,000,000	775,000
Water Pollution Control	Series A 1989	1990-1999	35,000,000	5,255,000
Water Pollution Control	Series A 1991	1992-2001	35,000,000	6,505,000
Water Pollution Control - Refunding	Series B 1991	1992-2001	17,435,000	5,720,000
Water Pollution Control - Refunding	Series C 1991	1992-2012	33,575,000	32,880,000
Water Pollution Control	Series A 1992	1993-2017	35,000,000	34,350,000
Water Pollution Control - Refunding	Series B 1992	1993-2010	50,435,000	50,335,000
Water Pollution Control	Series A 1993	1994-2018	30,000,000	30,000,000
Water Pollution Control - Refunding	Series B 1993	1994-2016	109,415,000	109,415,000
Subtotal			565,069,240	302,670,000
Third State Building	Series A 1986	1987-1996	325,000,000	27,920,000
Third State Building - Refunding	Series A 1987	1988-1997	170,115,000	27,105,000
Third State Building	Series B 1987	1988-1994	75,000,000	1,665,000
Third State Building - Refunding	Series A 1991	1992-2001	34,870,000	11,215,000
Third State Building - Refunding	Series B 1991	1992-2012	71,955,000	70,475,000
Third State Building - Refunding	Series A 1992	1993-2010	273,205,000	272,905,000
Third State Building - Refunding	Series A 1993	1994-2012	148,480,000	148,480,000
Subtotal			1,098,625,000	559,765,000
Total General Obligation Bonds			$ 1,663,694,240	$ 862,435,000
Revenue Bonds:				
Board of Public Building	Series D 1988	1991-1995	$ 4,475,000	$ 1,010,000
Board of Public Building - Refunding	Series A 1991	1992-2012	148,500,000	133,395,000
Department of Natural Resources:				
Bennett Spring Vogels Resort	Series A 1981	1982-1996	400,000	125,000
Bennett Spring and Harry S Truman Park	Series B & C 1981	1983-1996	1,780,000	605,000
Total Revenue Bonds			155,155,000	135,135,000
Health and Educational Facilities Authority - College Savings Bonds	Series A 1989	1990-2009	$ 39,999,569	$ 27,021,038
Economic Development, Export and Infrastructure Board :				
Lease Revenue Bonds	1990	1993-2007	$ 3,825,000	$ 3,520,000
Lease Revenue Bonds	1992	1994-2008	5,105,000	4,920,000
Lease Revenue Bonds	1992	1994-2008	6,535,000	6,300,000
Lease Revenue Bonds	1992	1994-2008	2,720,000	2,625,000
Total Lease Revenue Bonds			$ 18,185,000	$ 17,365,000
Convention and Sports Facility :				
Project Bonds	Series A 1991	1992-2021	132,910,000	28,870,000
Project Bonds - Refunding	Series A 1993	1994-2021	121,705,000	121,705,000
Total Convention and Sports Facility			$ 254,615,000	$ 150,575,000
Lease/Purchase Agreement:				
Department of Corrections:				
Potosi Corr Center - Refunding	1992	1998-2016	$ 50,635,000	$ 50,635,000
Missouri Public Facilities Corporation:				
Acute Care Psychiatric Hospital	Series A 1994	1995-2014	$ 22,250,000	$ 22,250,000
Department of Highway and Transportation:				
Certificates of Participation	1992	1993-2000	$ 6,560,000	$ 5,130,000
Total State Indebtedness			$ 2,211,093,809	$ 1,270,546,038

Statutory Authorities	Outstanding Amounts As of June 30, 1993
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Environmental Improvement Energy Resources Authority	1,207,195
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	$5,052,264,378

Source:
REPORT OF CERTAIN DEBT OF THE STATE OF MISSOURI AND POLITICAL SUBDIVISIONS
January 1994, prepared by the Committee on Legislative Research, Oversight Division.

INTEREST RATE CHART (For illustrative purposes only)

	General Obligation Bonds	Direct Revenue Bonds	Lease Revenue Bonds
Rating:	AAA	AA	AA
Issuer:	Board of Fund Commissioners	Board of Public Buildings	Southeast Mo. Correctional Facility
1999	4.85%	5.00%	5.15%
2004	5.40%	5.60%	5.75%
2009	5.90%	6.10%	6.25%
2014	6.20%	6.45%	6.60%
2024	6.25%	6.55%	6.70%

STATE OF MISSOURI

PROPOSED DEBT POLICY

AUGUST 10, 1994

Draft policy for discussion only.

Note: **This policy should not be considered final. It is, however, a starting point from which the appropriate parties can make refinements and enhancements.**

INTRODUCTION

The purpose of establishing a debt policy is to provide guidance in the issuance and management of debt. The debt policy will allow the State to maximize the use of its financial resources, and improve the effectiveness of state government. The policy will facilitate coordination of the State's debt management practices, maintain appropriate debt levels and communicate the State's debt structure to credit rating services, underwriters and purchasers of State debt. The debt policy will provide guidelines on "debt affordability', how much debt can be issued by the state or an agency of the state either on an absolute basis or without adverse consequences to its credit rating or the marketability of its debt. Included in the coordination and management of debt are specific guidelines in the following areas: type of debt issued by state agencies and public authorites, the uses of debt, structure of debt, reporting and cooordination of debt being issued and other miscellaneous areas dealing with debt.

TYPE OF DEBT

<u>Net Tax Supported Debt</u>:

The State of Missouri issues the following tax supported debt: (1) general obligation bonds; (2) revenue bonds; (3) lease revenue bonds; and (4) other bonds.

A. General Obligation Bonds

General obligation bonds are issued through the Board of Fund Commissioners. Under the Constitution and applicable statutes, the bonds are secured by a pledge of the full faith, credit and resources of the State. The bonds and interest thereon are paid from General Revenue Fund monies that are transferred to the appropriated interest and sinking funds one year in advance of payment.

Water Pollution Control General Obligation Bonds are issued to provide funds for the protection of the environment through the control of water pollution, to carry on the program of planning, financing and constructing sewage treatment facilities, to provide funds for the control of water pollution and improvements to drinking water systems and for storm water control through grants and loans administered by the Clean Water Commission and the Department of Natural Resources. The amount constitutionally authorized is $625,000,000 of which $250,505,760 is unissued.

Third State Building General Obligation Bonds were issued to provide funds for improvements to state buildings and property, providing additions or additional buildings and for grants for construction and improvement of rail and highway access within the State. The amount constitutionally authorized is $600,000,000 which has all been issued.

B. Revenue Bonds

The Board of Public Buildings issues revenue bonds for building projects and commits State agencies to lease space in these buildings. The General Assembly appropriates principal and interest on the bonds. The bonds do not constitute a pledge of the full faith and credit of the State. The amount authorized for the Board is $229,000,000.

C. Lease Revenue Bonds

Missouri Economic Development Export and Infrastructure Board has issued four series of lease revenue bonds to construct a laboratory facility and three office buildings. The State has entered into lease agreements for these facilities. The bonds do not constitute a pledge of the full faith and credit of the State. Payments under the lease agreements have been structured in an amount sufficient to pay principal and interest on the bonds.

D. Lease/Purchase Agreements

The Southeast Missouri Correctional Facility, Inc. issued bonds for the construction of the Potosi Correctional Center. At the same time, the State of Missouri entered into a lease purchase agreement to lease the Potosi Correctional Center. The payments under the lease/purchase agreement are sufficient to pay the principal and interest on the bonds.

The Missouri Public Facilities Corporation issued Certificates of Participation for the Acute Care Psychiatric Hospital Project. At the same time, the State entered into a lease/purchase agreement to lease the Acute Care Psychiatric Hospital. Payments under the lease agreement have been structured in amounts sufficient to pay principal and interest on the certificates.

E. Other Bonds

The St. Louis Regional Convention and Sports Complex Authority was created to issue bonds to plan, construct, operate and maintain or lease or sublease to or from others convention centers, sports stadiums, field houses and indoor and outdoor convention, recreational and entertainment facilities and centers. These bonds are limited obligations of the Authority and do not constitute a pledge of the full faith and credit of the State. However, under a financing agreement the State's budget will include an amount (in the form of rent to the Authority) sufficient to pay the State sponsored portion of the principal and interest due in each year.

The Health and Educational Facilities Authority issued College Savings Bonds. These bonds are limited obligations of the authority and do not constitute a pledge of the full faith and credit of the State. However, under a financing agreement the State's budget will include amounts from General Revenue sufficient to pay principal and interest due in each year.

The Jackson County Sports Complex Authority's purpose is to issue bonds to plan, construct, operate and maintain or lease or sublease to or from others convention centers, sports stadiums, field houses and indoor and outdoor convention, recreational and entertainment facilities and centers. These bonds are limited obligations of the Authority and do not constitute a pledge of the full faith and credit of the State.

Indirect Debt (dedicated revenue sources):

The State's higher education institutions have the power to issue and sell revenue bonds for the purpose of providing funds for the acquisition, construction, erection, equipment and furnishings necessary for the operation of the institution. The bonds are secured by pledge of the net income and revenues of the projects.

The Department of Natural Resources, State Parks has the authority to issue revenue bonds to acquire and/or develop park facilities. The bonds are secured by the pledge of the revenues of the projects.

The Missouri Highway and Transportation Commission issued Certificates of Participation for a Logo Sign Project. The certificates represent an ownership interest of the certificate holder in a lease agreement. The certificates are special obligations of the Commission payable solely from rental payments under the lease agreement.

Conduit Debt:

Conduit debt is debt issued by a State or quasi-state agency on behalf of a state borrower. The bonds are payable only from repayment of loans made to the borrowers and are not backed by the full faith, credit and resources of the State. The following are Missouri conduit issuers:

Missouri Health and Educational Facilities Authority. The purpose of the Authority is to help finance health and educational facilities for institutions within the state and to assist institutions in borrowing funds at the lowest possible cost in order to provide quality medical and educational service to state residents.

Missouri Economic Development Export and Infrastructure Board. The purpose of the Board is to promote economic development in the state. The Board can issue its negotiable revenue bonds to provide funds for this purpose.

Agriculture and Small Business Development Authority. The purpose of the Authority is to give technical assistance to local public bodies and to profit and not-for-profit entities in the development or operation of agricultural enterprises and pollution control. The Authority is authorized to issue revenue bonds to finance agricultural and small business development loans for property acquisitions and renovations and pollution control facilities throughout the state.

Higher Education Loan Authority. The purpose of the Authority is to assure that all eligible post-secondary education students have access to guaranteed student loans. The Authority has the power to issue revenue bonds to obtain funds to purchase student loan notes.

Missouri Housing Development Commission. The Commission is authorized to make or purchase mortgage loans and to insure mortgage loans, the funds of which are used to develop new or rehabilitate low and moderate income housing.

Missouri Environmental Improvement and Energy Resource Authority. The purpose of the Authority is to provide for the conservation of the air, land and water resources of the state by the prevention or reduction of pollution and proper methods of solid waste or sewage disposal. Also to provide for furnishing of water facilities and resource recovery facilities, to provide for the development of the energy resources of the state, to provide for energy conservation, to provide for energy efficiency projects and increase energy efficiency in the state.

Bi-State Development Agency. The purpose of the Agency is to plan, construct, operate and maintain bridges, tunnels, airports, streets and terminal facilities and to plan and establish policies for sewage and drainage facilities.

See Schedule 1 for outstanding amounts, and Schedule 2 for summary of types and purposes of debt.

STRUCTURE OF DEBT

A. The State of Missouri will not use long-term debt to finance current operations.

B. The State will utilize long-term borrowing only for capital improvements projects which cannot be financed from current revenue sources.

C. Although this policy is focused on the issuance of debt, the State should not forget the importance of the pay-as-you go philosophy. Each project, whether it is new construction or renovation, can be financed with cash or debt. No set rules can be applied to each category as budget constraints and market conditions are constantly changing. As a result, we believe the State should only issue debt, in particular lease revenue debt, if a revenue stream or budget committment can be identified to pay both debt service and operating expense. The same rules should apply to all issuers of debt in Missouri, in particular indirect debt.

D. When the State finances capital projects by issuing bonds, it should structure the maturities to pay back the bonds in a period not exceeding the expected life of those projects. The bonds should be for 30 years or less.

E. The State will seek level debt repayment schedules.

F. The State should issue general obligation and direct revenue debt, in the total amount of $25 million and greater to benefit from scale economies. There should be no size constraints for indirect revenue debt or conduit debt.

G. The State and other issuers should have the flexibility to issue both variable (including derivative products) and fixed rate debt. Tax supported debt should be made up of no more than _____% variable rate debt.

DEBT AFFORDABILITY

A. Debt Ratios

Debt capacity could be defined as what can be issued by the State or other issuers without adverse consequences to its credit rating or the marketability of its debt. It is usually evaluated in view of the income, wealth or asset base by which the debt is secured or from which it is paid.

The concept of tax supported debt takes into account all debt serviced by tax revenues of the state, whether or not the state itself was the issuer. Deducted to reach the net figure is any debt that is self-supporting from enterprise revenues, debt that is serviced by another unit of government as well as appropriate sinking funds and short-term operating debt.

No single measurement of overall debt is appropriate for all of Missouri's debt. The following debt ratios should be used as guidelines to help determine the amount of direct debt and revenue debt considered to be manageable:

1. Net Tax Supported Debt Per Capita - calculated by dividing the net tax supported debt by the estimated population. Net tax supported debt per capita should not exceed $______.

2. Net Tax Supported Debt as a Percent of Personal Income - calculated by dividing net tax supported debt by calendar year personal income as reported by the Department of Commerce. This percentage should not exceed ____%.

3. Net Tax Supported Debt Service as a Percent of Revenues - calculated by dividing the annual net tax supported debt service by the fiscal year revenues. This ratio shows the state's relative annual burden of supporting its outstanding net tax supported debt. This percentage should not exceed ___%.

4. Net Tax Supported Debt as a Percent of Estimated Full Valuation - calculated by adjusting the assessed valuation to estimated market value and dividing the net tax supported debt by this adjusted value. This percentage should not exceed ____%.

The State should track these ratios for five years and analyze the trends. The State's ratios should also be compared to the Moody's Investor Service medians, in particular States with the same bond ratings.

B. Rating Agencies

With regard to the State of Missouri, relations with the three rating agencies (Moody's Investor Service, Inc., Standard and Poor's Corp. and Fitch Investor Services) should be maintained. A representative of the State should meet with the the credit rating services on a regular basis to provide budget, financial and economic information about the State. The State should strive to maintain its triple A rating.

REPORTING AND COORDINATION

A. The Board of Public Buildings should be used when lease revenue and/or lease purchase agreements are used to finance projects. By better utilizing the Board of Public Buildings, the State will save money.

B. A revamping of the higher education governing structure, allowing for improved coordination among the various institutions with respect to bond issues.

C. A Bond Coordinator should be created. Such a person would be an ex officio member of the Board of Fund Commissioners, Board of Public Buildings and the Conduits, creating a centralized division. The role of this position would not be to control financings or comment, but to serve as a coordinator among issuers. (It is recommended that the Commissioner of Administration be designated as the Bond Coordinator.)

D. Require issuers of debt to annually submit a debt plan (issuing schedule) to the Bond Coordinator who will serve as a compliance vehicle.

E. Require all issuers of debt to submit their annual report to the designated compliance vehicle within 120 days after the end of its fiscal year.

MISCELLANEOUS

A. Method of Sale

Method of sale is the means by which the issuer elects to market the bonds to investors. Some issuers in the State can sell bonds either on a negotiated or competitive basis. This flexibility should be maintained

and offered to all issuers of debt including the Board of Fund Commissioners and the Board of Public Buildings. Each issuer should develop its own critera regarding type of sale. A brief discussion of each method follows:

1. Competitive Sale - the issuer with assistance from legal and financial advisors prepares the financing documents including the official statement and bid forms. A notice of sale is published stating the date and time at which bids will be taken. Underwriters submit sealed bids for the purchase of the bonds stating the interest rates for each maturity and the total price at which the bonds will be purchased. The bidder with the lowest interest cost as prescribed in the invitation for bid (usually the lowest True Interest Cost (TIC)) is awarded the bonds. This method may be used when:

   a. The issuer is a well-known or frequent issuer.

   b. There is a demand for the issuer's paper.

   c. The type of debt issued is straight forward - revenue bonds or general obligation bonds.

   d. The size of the issue is not considered large for the issuer, or if it is, the market strength is there.

   e. The issuer has a strong credit rating.

   f. There is a need to maintain the appearance of political independence.

2. Negotiated Sale - involves selecting the underwriter or group of managing underwriters before the bonds are issued. The lead underwriter participates with the issuer and the issuer's financial and legal advisors in the planning and structuring of the bond issue. The underwriter and issuer negotiate the interest rate and spread for the underwriter at the point when the bonds are marketed. This method may be used when:

   a. The issuer is unknown and a market must be developed for the bonds.

   b. The issuer has a weak credit rating.

   c. An unusual financing structure is being implemented.

   d. The market is unstable.

   e. The issuer wants to control who buys the debt instruments (i.e. keeping the bonds in-state).

B. Refunding Procedures and Practices

Outstanding debt issues should be refunded to achieve the one of the following objectives:

1. Reduce interest cost by issuing bonds at lower interest rates to refund bonds issued previously at higher interest rates thereby producing a debt service savings.

   a. Minimum debt service savings should be 2%.

   b. Criteria on upfront savings or level (annualized) savings.

2. Restructure principal payments to match changes in the revenue stream available to make debt service payments.

3. Eliminate or change restrictive bond covenants.

C. Selection of Professional Services

Selection of professionals (financial advisors, bonds counsel, paying agents, underwriters, etc.) by the issuer should be carried out through a request for proposal. The lowest and best response should be awarded the contract.

D. Use of Credit Enhancements, if cost effective

Subject to market conditions, issuers in the State should examine the benefits offered by the different forms of credit enhancements. A RFP process would be used when selecting a provider of credit enhancements.

E. Link Capital Budgeting to Debt Management

1. Provide a link between debt decision and the operating budget.

2. Capital planning should provide for mechanism to establish priorities to determine which projects to fund.

3. Capital planning/debt planning should be multi-year.

4. Broaden the Investment Policy utilized by the State Treasurer's Office.

F. New Programs

1. Investigate a bonding program for the Highway and Transportation Department to:

   a. use as matching monies for Federal Highway Monies.

   b. construct new roads and improvements to existing highways.

   In each case, the bonds would be secured by a revenue pledge of the Highway and Transportation Department and could fall into the Indirect Revenue Category.

2. Investigate the feasibility of creating a Missouri Municipal Bond Bank to facilitate the issuance of debt among smaller municipalities.

G. Review of the Debt Policy

The Debt Policy should be reviewed and updated every 12 to 18 months.

STATE OF MISSOURI
STATE INDEBTEDNESS
June 30, 1994

	Series	Maturity Date	Amount Issued	Amount Outstanding
General Obligation Bonds:				
Water Pollution Control	Series A 1972	1973-1997	$ 20,000,000	$ 3,565,000
Water Pollution Control	Series A 1974	1975-1999	8,000,000	2,450,000
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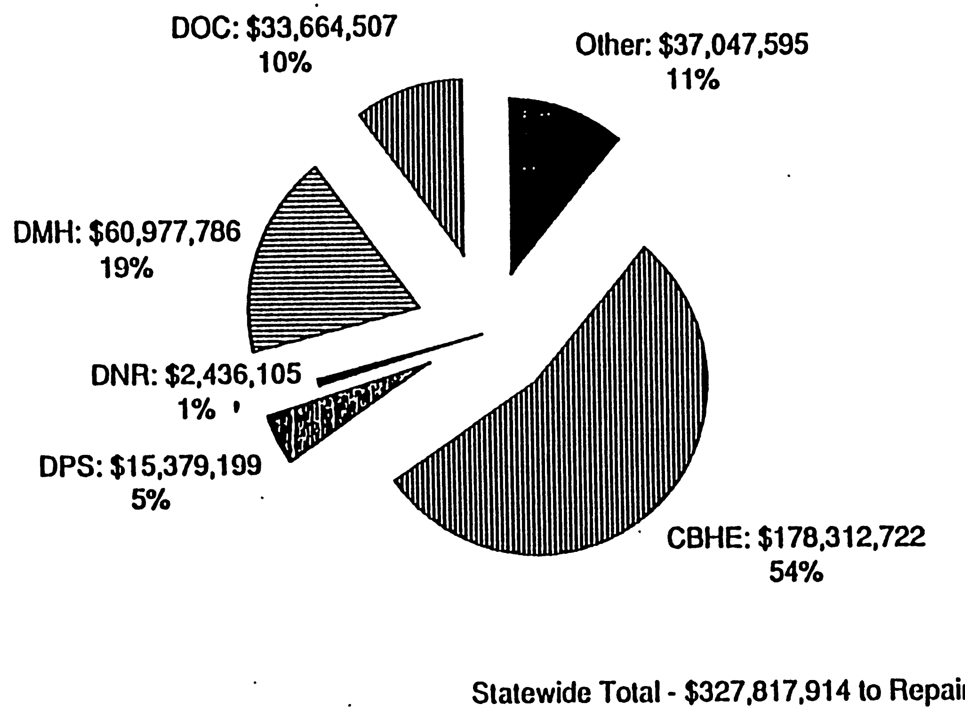
Source:
REPORT OF CERTAIN DEBT OF THE STATE OF MISSOURI AND POLITICAL SUBDIVISIONS
January 1994, prepared by the Committee on Legislative Research, Oversight Division.

STATE OF MISSOURI
Summary of Type and Purpose of Debt

Debt Issuer	Type of Debt: Direct G.O.	Direct Revenue	Direct Lease	Revenue	Conduit	Purpose
Board of Fund Commissioners	x					Water pollution control and improvements to state buildings
Board of Public Buildings		x				Acquisition and repair of State buildings or facilities.
Department of Natural Resources - State Parks				x		Acquire and develop State Parks
Southeast Missouri Correctional Facility, Inc.			x			Construct the Potosi Prison
Health Educational Facilities Authority					x (1)	Finance health and educational facilities for institutions in the State
Economic Development Export & Infrastructure Board					x (2)	Provide funds for economic development in the State
St. Louis Convention & Sports Complex Authority		x				Construct the St. Louis Sports and Convention Center
Missouri Public Facilities Corp.			x			Fund the Acute Care Psychiatric Hospital Project
Jackson County Sports Complex Authority				x		Fund the Jackson County Sport Complex Project
Missouri Highway & Transportation Commission				x		Fund the Logo Sign Project
Agriculture & Small Business Development Authority					x	Provide assistance in the development of agricultural enterprises and pollution control
Higher Education Loan Authority					x	Guarantee student loan program
Missouri Housing Development Commission					x	Develop new or rehabilitate low and moderate income housing
Missouri Environmental Improvement & Energy Resource Authority					x	Conservation of resource and development of energy resource
Bi-State Development Agency					x	Construct and maintain bridges, streets, airports, etc.
Colleges and Universities Southwest Mo State University Southeast Mo State University Northwest Mo State University Northeast Mo State University Mo Southern State College Mo Western State College Central Mo State University Lincoln University				x		Construct, maintain and operate the institutions

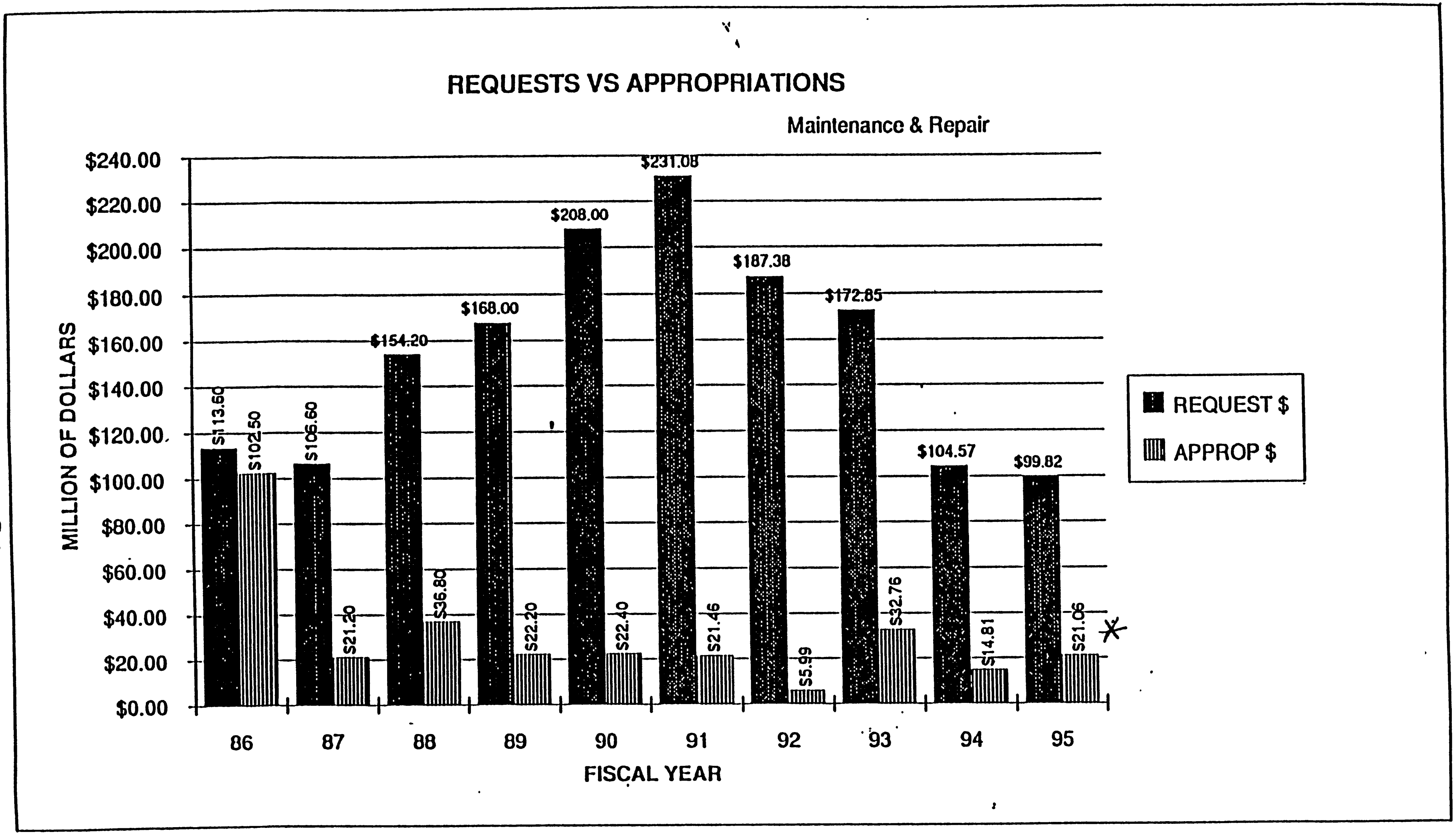
(1) The State is directly obligated for one issue for College Savings Bonds.
(2) The State is directly obligated (lease/purchase agreement) for four issues.

COST TO REPAIR BUILDINGS TO GOOD CONDITION



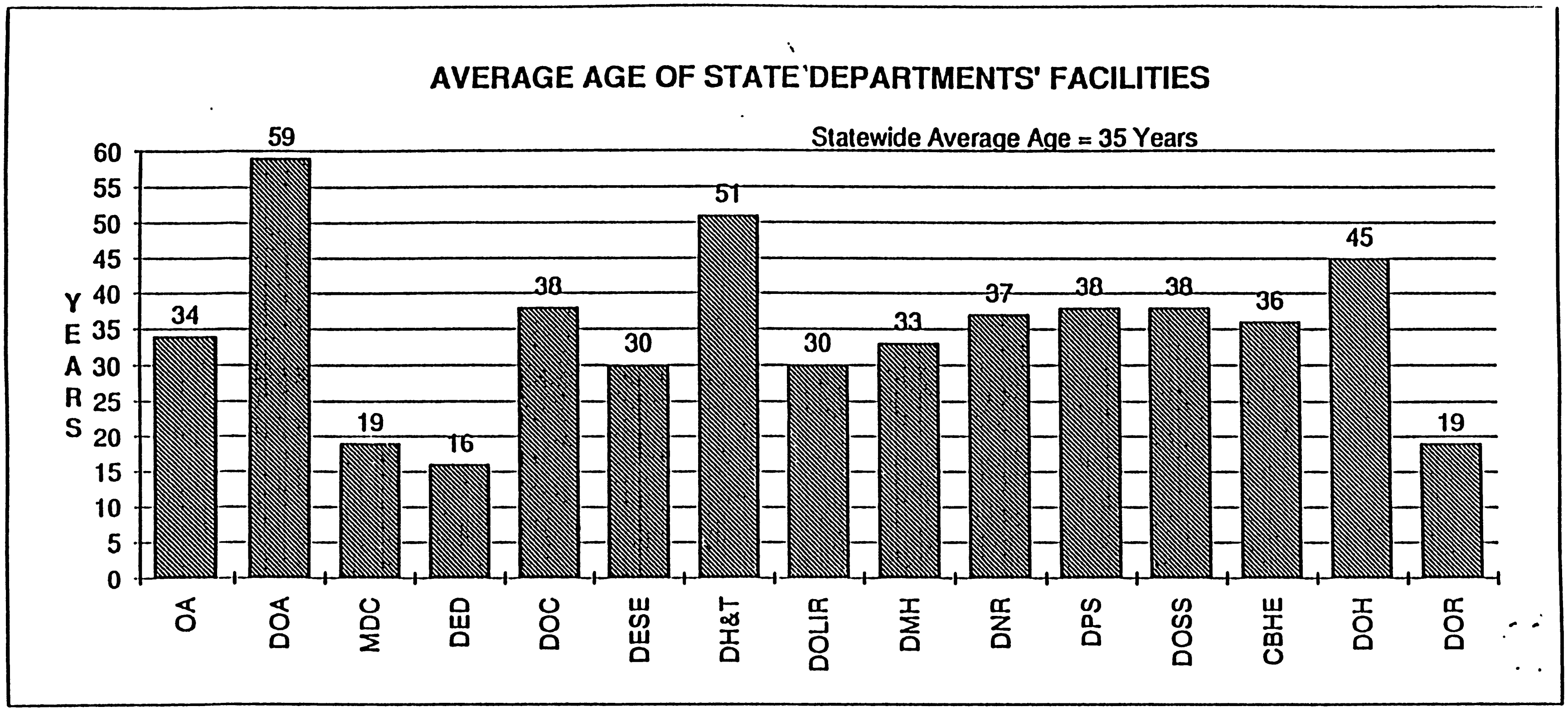
To repair these same buildings to good condition -- which means to a level requiring only routine maintenance -- would cost the state almost $328 million. This figure includes correction of both physical deficiencies, such as those resulting from deterioration, and functional deficiencies, which are caused by code deficiencies, capacity problems and other incompatibilities with current construction or use standards.

As provided by the state's Land And Buildings System (LABS), buildings are broken down into component parts such as roofs, floors, walls, HVAC equipment, etc. Each component is then rated to ensure it conforms to acceptable physical condition, complies with codes and is compatible with current standards. When a component is found to be less than acceptable, the cost to repair it to an acceptable condition, one requiring only routine maintenance, is calculated. The total cost, as provided by departments, to bring all structures to acceptable condition now is almost $328 million.

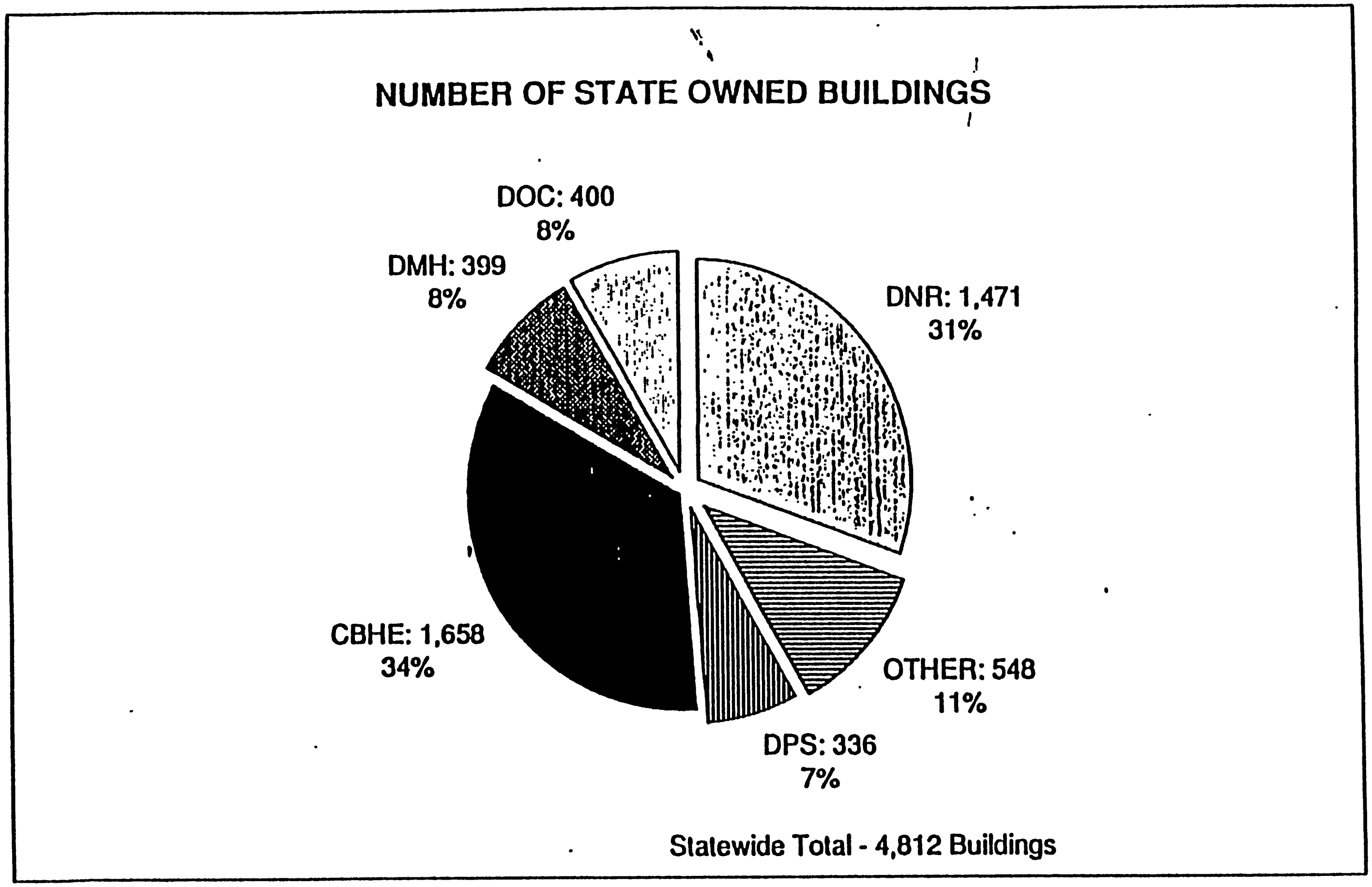


This figure compares annual maintenance and repair requests with appropriations for the years FY 1986 to FY 1995. Although since FY 1991 requests have declined, this is believed to mostly reflect more realistic requests relative to historic funding patterns. In FY 1995, the difference between requests and appropriations is $78.76 million. When all funding sources are combined, the median average annual Maintenance and Repair appropriation from all funds since FY 1987 has been $21.46 million, or about .4% of the Replacement Value of $5.4 billion.

* This does not include $6 million which was added to Higher Education's operating budgets for maintenance and repair projects. Specific projects were not identified.



Combined, the state's buildings, on the average, are 35 years old and total 61.6 million square feet.



The State of Missouri owns more than 4,800 buildings, which are located around the state at 1,500 sites. Higher Education owns more than one-third of all state buildings.

7/1/94 7.03
C/95MR/COMAPR XLS

PREPARED BY THE DIVISION OF DESIGN AND CONSTRUCTION
6/30/94

FISCAL YEAR 1995

D&C MAINTENANCE AND REPAIR PRIORITIES BY DEPARTMENT

DEPARTMENT REQUESTS VERSUS ACTUAL APPROPRIATION

	PRIORITY 0's		PRIORITY 1's		PRIORITY 2's		PRIORITY 3's		TOTAL	
DEPARTMENT	REQUEST	TAFP	REQUEST	TAFP	REQUEST	TAFP	REQUEST	TAFP	REQUEST	TAFP
ELEM & SECONDARY EDUC	$2,770,452	$2,569,361	$2,038,593	$30,639	$936,926	$0	$0	$0	$5,745,971	$2,600,000
OFFICE OF ADMINISTRATION	$2,510,180	$2,200,424	$6,349,578	$1,731,141	$1,276,800	$128,460	$0	$0	$10,136,558	$4,060,025
AGRICULTURE	$0	$0	$350,200	$125,111	$0	$0	$0	$0	$350,200	$125,111
NATURAL RESOURCES	$0	$0	$539,588	$539,600	$0	$0	$0	$0	$539,588	$539,600
ECONOMIC DEVELOPMENT	$0	$0	$8,447	$8,495	$3,476	$0	$0	$0	$11,923	$8,495
LABOR & INDUSTRIAL RELATIONS	$0	$0	$391,788	$391,800	$10,242	$10,200	$0	$0	$402,030	$402,000
HIGHWAYS & TRANSPORTATION	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
PUBLIC SAFETY-MHP	$0	$0	$38,894	$38,900	$0	$0	$202,528	$202,600	$241,422	$241,500
ADJ GEN	$258,000	$258,000	$2,440,000	$1,828,985	$330,000	$0	$0	$0	$3,028,000	$2,086,985
VET COMMISSION	$0	$0	$0	$0	$130,036	$123,210	$0	$0	$130,036	$123,210
WATER SAFETY	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
CORRECTIONS	$1,009,286	$1,009,300	$3,985,010	$2,586,985	$2,347,125	$115,050	$0	$0	$7,341,421	$3,711,335
MENTAL HEALTH	$2,129,414	$2,129,500	$6,104,565	$3,790,682	$3,026,992	$0	$0	$0	$11,260,971	$5,920,182
HEALTH	$96,109	$96,200	$49,919	$49,934	$53,696	$0	$0	$0	$199,724	$146,134
SOCIAL SERVICES	$199,915	$185,212	$43,138	$39,895	$196,792	$0	$0	$0	$439,845	$225,107
SUBTOTAL DEPARTMENTS	$8,973,356	$8,447,997	$22,339,720	$11,162,167	$8,312,085	$376,920	$202,528	$202,600	$39,827,689	$20,189,684
HIGHER EDUCATION										
FUNDED IN THE CI BILLS	$3,591,627	$468,817	$5,188,818	$0	$30,651,907	$0	$0	$0	$39,432,352	$468,817
* FUNDED IN THE OPERATING BILL	*	*	*	*	*	*	*	*	*	$6,000,000
SUBTOTAL HIGHER ED	$3,591,627	$468,817	$5,188,818	$0	$30,651,907	$0	$0	$0	$39,432,352	$6,468,817
TOTAL ALL DEPARTMENTS	$12,564,983	$8,916,814	$27,528,538	$11,162,167	$38,963,992	$376,920	$202,528	$202,600	$79,260,041	$26,658,501

* ALTHOUGH A SUBSTANTIAL AMOUNT OF 0 AND 1 PRIORITIES FOR HIGHER EDUCATION INSTITUTIONS WAS NOT FUNDED IN THE CI BILL, $6 MILLION WAS ADDED TO THEIR OPERATING BUDGETS FOR MAINTENANCE AND REPAIR PROJECTS. SPECIFIC PROJECTS WERE NOT IDENTIFIED.

APPENDIX K

The survey of state employees revealed the following related to the current budget process:

- Approximately 210 years are spent on the annual budget process (does not include the legislature);

- 90.2% would change the current budget process;

- 50% are currently developing performance measurements;

- There are no incentives (for cost savings and resource identification) inherent in the current budget process;

- 82.3% believe that there are inefficiencies in the SAM (Statewide Accounting for Missouri) (Accounting/Budgeting) financial management system; and

- 64.1% would change the SAM system.

The survey respondents were than asked to suggest improvements that they would make to the current budget process in order to enhance effectiveness and encourage efficiencies. The following suggestions were recommended:

- More involvement is needed by Governor's office and legislative committees;

- Plan for budgeting in the long term rather than on a year-to-year basis;

- Tie the budgeting process together better so that it is less fragmented;

- Develop a biennial budget;

- Make the process more outcome oriented and less process driven;

- Provide much needed communication among all parties involved;

- Develop outcome related performance measurements;

- Allow departments that develop methods to create and save money to retain these funds instead of sweeping these funds into the general fund; and

Purchase a new financial management system that would have the following benefits:

- More user friendly;
- Ability to query and organize data in new structures;
- Allow departments to print their own reports as needed;
- Allow for narrative justification online;
- Produce daily comprehensive reports; and
- Create a master file that can be shared by all participants that includes all expenditures.

APPENDIX L

Several examples were brought to the attention of the committee of innovative partnerships and resource identification. One includes the conversion of the Central Medical Center (CMC) in St. Louis. CMC was a hospital in an economically depressed north-side neighborhood. The State was concerned about the economic and social impact of CMC's imminent bankruptcy and loss of the hospital to the Penrose neighborhood surrounding the hospital proper. In a unique and collaborative manner, St. Louis area hospitals arranged for the purchase of the facility and donated it to the State. Civic Progress, a group of leading businesses in St. Louis, donated funds to renovate the facility; and the State agreed to provide tax credits and to commit existing staff and resources to locate a community resource center at the site. The state/local partnership, requiring minimal incremental General Revenue, achieved a positive outcome for the Penrose community. Jobs were retained in the neighborhood and needed services are being provided in a customer friendly setting.

In Columbia, Primary Care Clinic was created to help serve the uninsured and to reduce inappropriate use of hospital emergency rooms. The cost of operating the clinic is being underwritten by the three area hospitals, the local United Way, existing health care resources of the State of Missouri and the local health department. Again, a neighborhood initiative was undertaken without a significant investment of additional General Revenue dollars. A community defined need and significant concern to the State, emergency room over utilization, was addressed using both community and state resources to provide needed health care in an appropriate setting.

These examples are often portrayed as successful program collaborations, but are also very successful financing models.

We are confident that many more examples such as these are occurring throughout State government. Most are an exception to the process rather than the rule. There is a better process for sharing information on these successes with other states than between departments. These successes and the process to identify and implement these opportunities need to be institutionalized. Including resource identification in the budget cycle would create a process for building on these examples. All point to the advantages of resources identification with existing historical partnerships or the creation of new partnerships. All point to the effective use of the marginal General Revenue dollars and how a combination of existing and new resources, state, local and private, can lead to a successful outcome.

Missouri Department of Social Services
Research & Evaluation

COMAP Fee Survey
July 1994

• Excluding the Department of Higher Education, the Department of Revenue collected approximately 83% of the revenue generated by fees in the state during FY 1993. Unfortunately the Department of Revenue was unable to provide complete information regarding its fees and, therefore, the following conclusions are based on limited information.

• Seventy-seven percent (77%) of the respondents indicated that the fee in question is required by statute.

• Among the fees with amounts fixed in statute, 28% of respondents indicated that the amount is too low. Seventy percent (70%) indicated that the amount collected is appropriate and the remaining 2% indicated that the amount is too high.

• Among the fees with administratively determined amounts, 85% of respondents indicated that the amount is based on the cost of operations, and 69% indicated that the cost is reevaluated at least annually.

• In 75% of the cases revenue from fees is placed into a special purpose fund.

• The percentage of revenue devoted to the collection of the fee is generally less when fees are set by statute rather than administrative regulation. In 86% of the cases where the amount of the fee is set by statute the percentage devoted to collection is 5% or less. When fees are set by administrative regulation only 37% have administrative costs of 5% or less; 30% are between 6% and 25%; 12% are between 26% and 99%; and 21% are 100%. This later category represents fees which are set at a level designed to meet, but not exceed, the actual cost of administration.

COMAP Fee Survey Results

July 1994

Objective

The survey was designed to gather information regarding the use of fees in Missouri state government. The respondents were asked to complete a survey for each fee collected by the department/agency based on a list of fees generated from object codes supplied by the Department of Social Services Division of Budget and Finance. See Attachment A for a copy of the instrument and Attachment B for a list of fees, by object code, and the number of responses for each.

Distribution and Response Rate

Two hundred and forty-two surveys were distributed to 19 departments and agencies. The response rate as of July 2 was 70.3% (184 responses were received of which 170 were usable). The responses by department/agency are shown in Table 1.

Table 1

Department/Agency	Survey Responses
Agriculture	19
Attorney General	2
Conservation	1
Economic Development	78
Elementary and Secondary Education	4
Health	17
Highway and Transportation	1
Judiciary	2
Labor and Industrial Relations	4
Mental Health	1
Natural Resources	31
Office of Administration	5
Revenue	3
Secretary of State	2
TOTAL	170

Survey Responses

Question 1: Who is the fee collected from?

Individuals only	28.2%
Corporations only	20.0%
Others* only	04.7%
Individuals and Corporations	24.7%
Individuals and Others	04.1%
Corporations and Others	03.5%
Individuals, Corporations and Others	22.4%
Missing	00.6%

Question 2: To what fund is the fee deposited?

Federal Funds	00.0%
General Revenue	22.9%
Other*	75.3%
General Revenue and Other	01.8%

Question 3: Is the fee required by statute?

Yes	77.6%
No	22.4%

Question 4: How is the amount set?

Fixed in Statute	31.3%
Administrative Regulation	60.6%
Other method*	08.1%

Question 5: If the amount of the fee is fixed in statute, do you think the amount is...?

Appropriate	70.0%
Too low	28.3%
Too high	01.7%

Question 6: If administrative, how is the amount determined?

To cover operations- not to exceed actual cost	85.1%
Other method*	14.9%

Question 7: If administrative, how often are they reevaluated?

Annually	69.5%
Every two to three years	19.0%
Every four to five years	07.6%
More than five years	03.8%

Question 8: What percentage of the fees collected is devoted to administrative expenses associated with the collection of the fee?

Average response	23.7%

*See Attachment C for a listing of Other responses

LICENSES, PERMITS AND FEES SURVEY

The Governor's Commission on Management and Productivity is doing a review of the use of fees in state government. Please respond to the following questions for the below mentioned fee administered by your department. Please send your responses no later than **June 30, 1994** to

Missouri Department of Social Services
Research and Evaluation Unit
First Floor Broadway Building
P.O. Box 1527, Jefferson City, MO 65102

Department : *department specified*
division specified

Fee: *fee specified*

1. Who is the fee collected from? (check all that apply)
   - a. Individuals [ ]
   - b. Corporations [ ]
   - c. Other [ ]

   If other, please specify ______________________________

2. To what fund is the fee deposited? (check all that apply)
   - a. Federal Funds [ ]
   - b. General Revenue [ ]
   - c. Other [ ]

   If other, please specify ______________________________

3. Is the fee required by statute? (check one)
   - a. Yes [ ]
   - b. No [ ]

4. How is the amount set?

(check one)

a. Fixed In Statute [ ]
b. Administrative Regulation [ ]
c. Other [ ]

If other, please specify ______________________________

5. If the amount of the fee is fixed in statute, do you think the amount is . . . ?

(check one)

a. Appropriate [ ]
b. Too low [ ]
c. Too high [ ]

6. If administrative, how is the amount determined? (check one)

a. To cover operations not to exceed actual cost [ ]
b. Other method [ ]

If other, please specify ______________________________

7. If administrative, how often is the amount reevaluated?

(check one)

a. Annually [ ]
b. Every two to three years [ ]
c. Every four to five years [ ]
d. More than five years [ ]

8. What percentage of the fees collected is devoted to administrative expenses associated with collection of the fee? _____%

9. Person completing questionnaire: ______________________

10. Phone Number: ______________________

Attachment B: Fees by Object Code and Number of Responses

Fee	Object Code	Responses
Professional License or Permit	1100	26
Recreational License or Permit	1105	1
All-Terrain Vehicle License or Permit	1108	0
Motor Vehicle License or Permit	1110	1
Driver's License or Permit	1113	0
Land Reclamation Commission Permit	1115	2
Salesman License or Permit	1117	3
Vehicle & Boat Manufacture/Dealer	1119	1
Liquor License or Permit	1120	0
Beer License or Permit	1125	0
Motor Carriers License	1130	1
Hunting & Fishing License & Commission	1132	1
Other Licenses and Permits	1135	14
City Sales Tax Collection	1140	0
County Collectors Fees	1145	0
Jackson County Cigarette Tax Commission	1150	0
St. Louis County Cigarette Tax Commission	1155	0
Financial Institutions Intangible Property Tax	1160	0
Motorboat Fees	1170	0
Narcotics and Dangerous Drugs Fees	1175	1
Outboard Motor Fees	1180	0
Occupational Board Fees-Ind	1185	17
Occupational Board Fees-Cor	1186	2
Non-Motor Fuel Decal Fees	1187	0
Other Registration Fees	1189	7
Athletic Commission Fees	1190	0
PSC/DIV of Trans Reg Fees	1195	0
Milk Control Fees	1200	1
Home Health Care License Fee	1204	1
Nursing Home License Fee	1205	0
Title V Emissions Fees	1206	1
Boarding Home License Fees	1207	0
Hospital License Fees	1209	1
Grain Warehouse License Fees	1210	1
Missouri Primacy Fee	1211	1
Underground Storage Tank Ann Part	1212	1
Transport Load Fees	1213	1
Tourist Cabin Permit Fees	1215	1
Livestock Sales & Marketing Fees	1219	1
Insurance Companies Reg. Fee	1221	1
Air Conservation Commission Permit Fees	1222	1
Bingo License Fees	1223	0
Beverage Inspection Fees	1225	0
Grain Warehouse Inspection	1230	1
Milk Inspection Fees	1235	1
Mine Inspection Fees	1240	2
Mobile Home & Rec. Vehicle Inspections	1245	0
Oil Inspection Fees	1249	0
Mattress Factory Inspection Fees	1250	1
Other Inspection Fees	1253	4

Attachment B continued

Fee	Object Code	Responses
Admission Fees	1255	1
State Auditor Fees	1257	0
Secretary of State Fees	1260	1
Savings & Loan Capital Inc Fees	1262	1
Court Fees	1265	2
Financial Institute Exam Fees	1267	3
Consumer Finance License Fees	1268	1
Institutional Support Fees	1270	2
Land Survey Fees	1275	0
Magistrate Fees	1280	0
Marketing Development Fees	1282	1
Miscellaneous Insurance Fees	1285	1
Motor Vehicle Inspection Sticker Fees	1290	0
Public Defender Fees	1293	1
Other Fees-Please Specify:	1297	57
Ice Cream Production Inspection Fees	1327	1

Attachment C: Specified "Other" Responses

Specified Other Fees:

- Abandoned Mine Reclamation
- Ambulance
- Application
- Asbestos Notification
- Athletic
- Certificate
- Charity Fund-raiser
- Computer Print Out
- Copy
- Disposal Area
- Examination
- Feeder Pig Grading
- Fine
- Infectious Waste
- Lab Certification
- Lab Services
- Landfill
- Loading
- Mammography
- Miscellaneous
- Nurse Loan Program
- Open Records
- Research
- Service
- SRF Loan Administration
- Underground Storage Tank
- Variance Request
- Water Sample Lab
- Well Drilling

Question 1: Specified Others

- Agency Providers
- Ambulance Surgical Centers
- Attorneys
- Candidates
- Educational Organization
- EMTS
- Fuel Distributors
- Funeral Homes
- Government
- Group Campers
- Hospitals
- Insurance Organizations
- Landfills
- Medical Community
- Motor Vehicle Owners
- Nurses
- Parties Requesting
- Partnerships
- Public Water Systems
- Retailers
- School Districts
- Shop Owners
- Small Businesses
- Veterans Homes
- Veterinary Facilities
- Waste Tire Haulers
- Waste Tire Sites

Question 2: Specified Other Funds

- Abandoned Mine Reclamation
- Architects and Surveyors
- Athletic
- Board of Barbers
- Board of Cosmetology
- Board of Nursing
- Board of Optometry
- Board of Pharmacy
- Board of Podiatry
- Chiropractic Examination
- Coal Mined Land Reclamation
- Comm of Psychologists
- Commodity Council
- Conservation Comm
- Court Cost
- Dental Board
- Division of Credit Unions
- Division of Finance
- Drinking Water
- Embalmer and Funeral Director
- Excellence in Education
- Federal Surplus Property
- Grain Inspection
- Healing Arts
- Highway
- Landscape Architect
- Legal Defense
- Livestock Brand
- Livestock Dealer
- Local Records Preservation
- Lottery Enterprise
- Mammography
- Mental Health Earnings
- Merchandising Practices
- Milk Inspection
- Mixed Land Reclamation
- MM Waste Management
- Mortgage Broker
- MRC Earnings
- Natural Resources Protection
- Nurse Loan Repayment
- Professional Counselors
- Real Estate Appraisal
- Real Estate Comm
- Safe Drinking Water
- Saving and Loan Supervision
- State Board of Accountancy
- State Fair
- State Park Earnings
- State Road
- Underground Storage Tank Insurance
- Underground Storage Tank Regulation
- Veterinary Medical
- Well Drillers
- Workers Compensation

Question 4: Specified Other Sources

Commission Rule
Contract
Cost Recovery
Cover Operations
Department Policy
Management
Market
Recover Loss

Question 6: Specified Other Methods

Amount of Anticipated Loans
Cost Recovery
Costs and Regulation
Costs Plus Reserve
Cover Costs
Cover Operations
Cover Variable Costs
Federal Government
Market
Meet Industry Needs

Summary of Texas and Illinois Fee Studies

Comprehensive fee studies from only two states, Texas and Illinois, could be located. In addition, Nebraska (1989) has done an inventory of its fees, but the report contains no analysis; it is simply a list of fees including the amount of each fee, revenue generated, use of the fee and statutory authority.

The main conclusions from the Texas and Illinois studies are:

TEXAS (1989)

• Fees were defined as charges the state made for issuing permits or licenses or charges for providing specific services.

• The state government administers over 1,000 fees.

• Nearly three-quarters of the revenue generated from fees came from two sources: transportation charges (58.9%) and higher education fees (14.3%).

• The Texas study examined such issues as: whether the state was foregoing fee opportunities other states were engaged in; whether there were standards for when fees should be charged; when fees should be set to cover the cost of the program involved; and whether fees were market based when appropriate.

• The study concluded that Texas had no coordinated fee policy.

ILLINOIS (1993)

• Fees were defined as licenses, permits, registrations, tolls and tuition.

• Illinois also concluded that the state was not systematically reporting information on fees and, as a result, many fees were obsolete.

• Recommendations from the Illinois study were that the state should periodically: inventory its fees; assess the continuing appropriateness of imposing the fee; and review the amount of the fee in light of the current cost of providing the service for which the fee is being charged.

APPENDIX N

The following are definitions of performance measurements:

1. Input Measurements. These are designed to report the amount of resources, either financial or other (especially personnel), that have been used for a specific service or program. Input measurements are ordinarily presented in budget submissions and sometimes external management reports.

2. Output Measurements. These report units produced or services provided by a service or program.

3. Outcome Measurements. These are designed to report the results (including quality) of the service. Example of outcome measurements are the change in students' test scores, the percentage of hypertensives treated who now have controlled blood pressure, and the value of property lost due to crime.

4. Efficiency (and Cost-Effectiveness) Measurements. These are defined as indicators that measure the cost (whether in dollars or employee hours) per unit of output or outcome. Examples are cost per million gallons of drinking water delivered to consumers, or costs per thousands of effluent treated to a certain level of quality.

5. Explanatory Information. This includes a variety of information about the environment and other factors that might affect an organization's performance on measurements. Examples would be weather conditions for road maintenance, percentage of students with English as a second language for education, or quality of source water for water service.

Most agencies in Missouri have been developing measures 1, 2, and 4 above; however, to benefit from performance-based budgeting we need to make a concentrated effort in developing 3.

NOTE: Definitions are from GASB Research Report, Service Efforts and Accomplishments Reporting: It's Time Has Come.

APPENDIX O

SAM Financial Management System Evaluation

Deficiencies of SAM Budget	Capabilities Needed in Missouri
Rigid reporting System	Flexible reporting
Programming is "patchwork"	Accurate and timely reporting
Text cannot be handled	Budget narrative and data
Accounting/budget interface requires manual input	Automated interface
Cumbersome batch processing	Easier and more readily available on-line entry of data
Report printing only at centralized mainframe location	Distributed report printing capability
Appropriation tracking done separately	Database to meet the reporting needs of all appropriations process participants
Budget summaries created manually using PC systems	Database to meet the reporting needs of all
No information on performance or outcome of spending	Integration of performance measures in budget system
Data is not easily downloaded	Easier access to budget system database
Current inflexible system has led to a variety of formats for each agency budget request	Ability for multiple users to share same database and produce reports